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THE MAGAZINE OF CORPORATE MANAGEMENT

Business MONTH

OCTOBER 1990 $3.00

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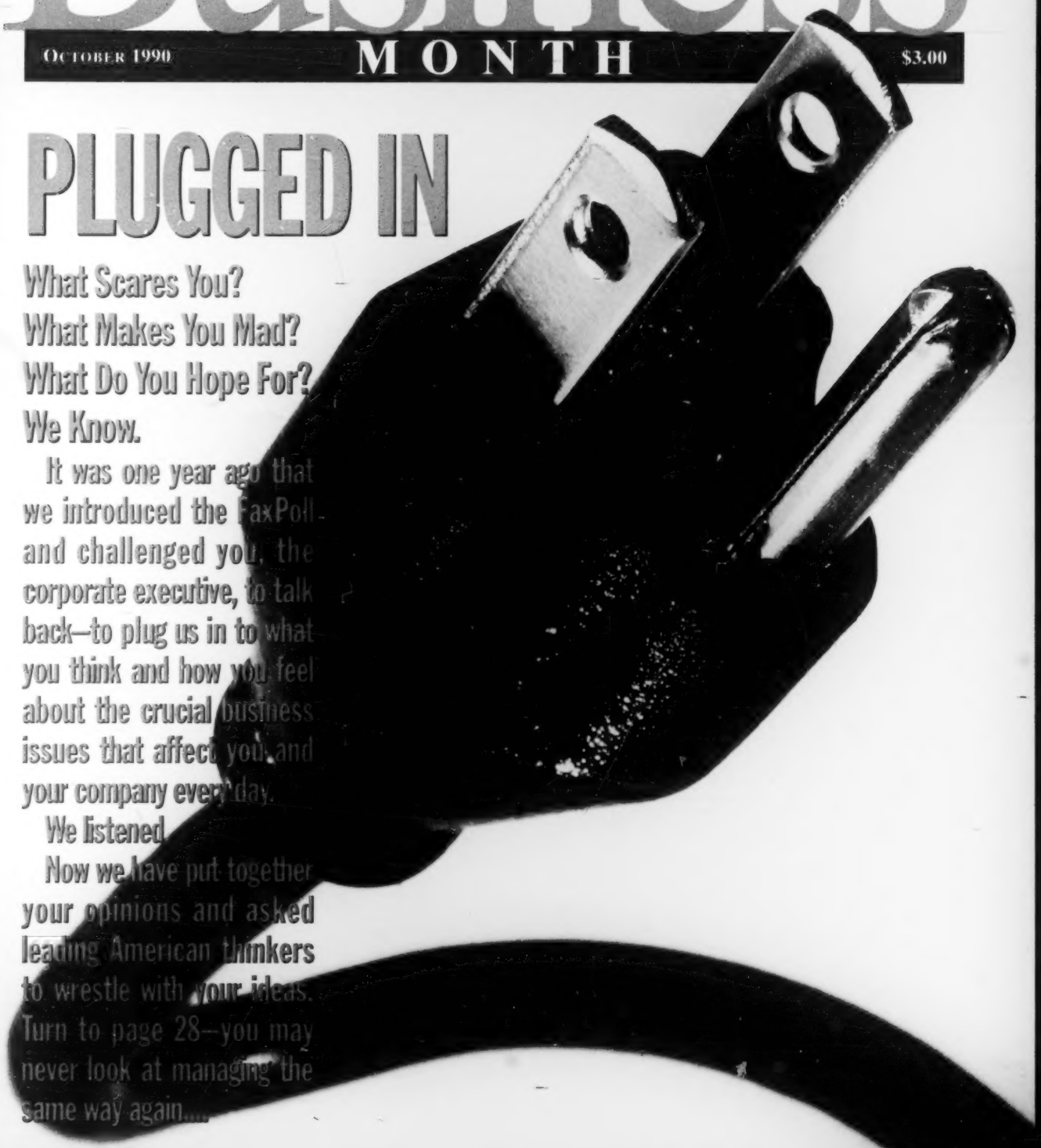


What Scares You? What Makes You Mad? What Do You Hope For? We Know.

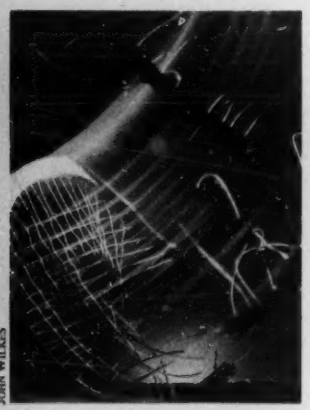
It was one year ago that we introduced the FaxPoll and challenged you, the corporate executive, to talk back—to plug us in to what you think and how you feel about the crucial business issues that affect you and your company every day.

We listened.

Now we have put together your opinions and asked leading American thinkers to wrestle with your ideas. Turn to page 28—you may never look at managing the same way again....

Business MONTH

OCTOBER 1990



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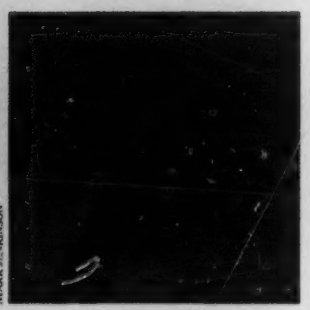

MARK JENKINSON

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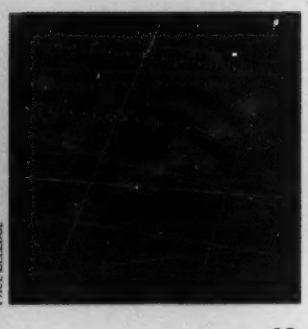

PAUL ELLEDGE

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Cover Photograph:
James Wojcik

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Who Cares What You Think?

We do. One year ago we launched the FaxPoll, giving you the chance to sound off on today's critical management issues. Now, 15,000 responses later, we're coming back at you. We've asked leaders in business, academia, and journalism to challenge your opinions—maybe even change the way you run your company.

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"The marketing plan said we'd double in size, so Ed in Purchasing— remember Ed?— he got this great volume discount on office furniture."
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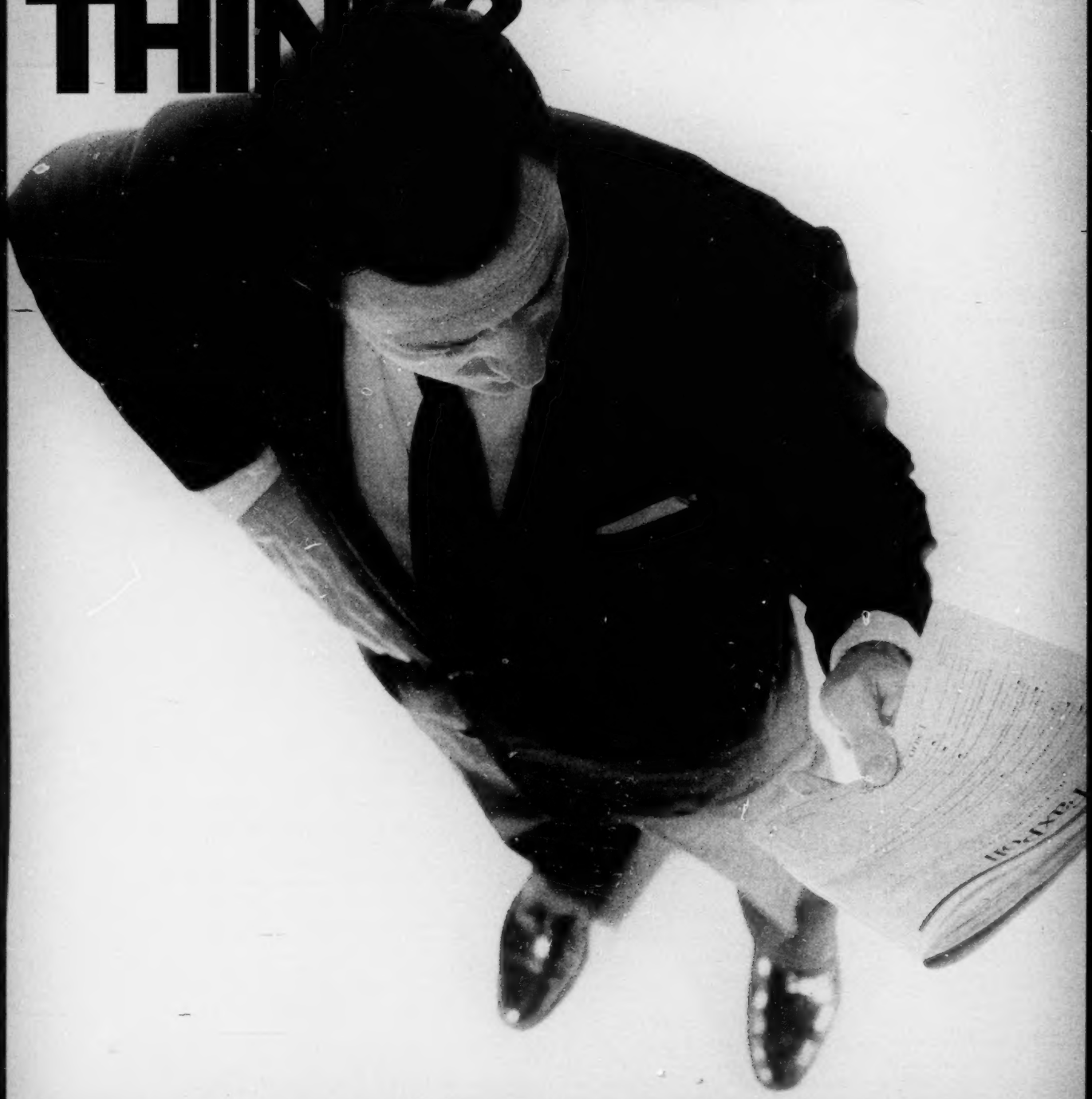
WHO CARES WHAT YOU THINK?



SPEAKOUT: The FaxPoll opened a dialogue on today's crucial issues. You told us your fears, hopes, and frustrations. Here's how others see your workday struggles. By Tom Post

WE DARE YOU. THAT'S WHAT WE DO EVERY month in the FaxPoll. We dare you to talk back to us—and to your managerial peers—about critical issues at the heart of American business.

And you've risen to the challenge. You've welcomed the chance by the thousands to tell us what's on your minds, to kick off a dialogue about ethics or layoffs or executive pay. You've told us what you think about drug testing at the office and executives who lie. You've offered suggestions about what we should do to cure the health-care crisis. You've put into perspective what loyalty means in today's company. After a year's worth of FaxPolls, we have what amounts to a national bulletin board of ideas, opinions, and feelings from corporate America's decision makers.

Now we're coming back at *you.* We've assembled leading people from business, academics, and journalism to give you their views of what's been on your mind for the past year. In the next 36 pages, they will challenge your thoughts, kick aside old assumptions, and push new approaches to the problems of what promises to be a tough decade.

DURING THE LAST YEAR, YOU'VE HAD A CHANCE TO SOUND OFF ABOUT MANAGEMENT ISSUES. NOW, IN THE PAGES THAT FOLLOW, IT'S OUR TURN.

What *is* the FaxPoll? A way of bridging the natural gap between readers and the magazine that serves them. We never intended to use the FaxPoll as a scientific survey or a statistical abstract. We leave that errand to market research. Instead, we wanted to interact with our audience in ways that had never been tried before. The idea was to give readers a voice and then react with stories that reflected and played off their concerns.

What have we learned about you?

You're responsive. That's obvious from the number of readers who have participated: some 16,000 people from over 10,000 companies—an average of 1,300 respondents each month. But those numbers don't reflect the *strength* of your responses—the hundreds of unsolicited thoughts scribbled in the margins of the poll and the pages of additional comments that come through our fax machines. These tell us you have a lot on your minds and, until the FaxPoll, little chance to ventilate those thoughts.

You're sometimes quick to take offense. The FaxPoll on women managers drew 1,924 responses, some of them livid. "This is not worth answering!" scrawled one angry reader, echoing those who bridled at the headline, "Are You a Ladies' Man?" Still, we managed to uncork a broad spectrum of opinion about a pressing social issue. You taught us a crucial lesson about human nature: Feeling is far more important than fact. Never mind that 20 years have passed since the first stirrings of the women's movement, or that the American work force is now split evenly between men and women. There's still a raging war between the sexes. Sure, two-thirds of you complain there are pitifully few women in management. But a stubborn minority clings to an ancient standard: "The business world is a MAN's world."

You can't abide the thought of defeat. Nearly 1,700 of you answered our poll on Japan, many sounding belligerent, fearful, even xenophobic. Typical were outbursts like "Wake up before it's too late!" and "If Cuba and Libya can nationalize, so can we!" Lots of you insisted that by acquiring U.S. assets, the Japanese were paying us back for their crushing defeat in World War II. But a few drew something useful from the humiliating rubble: "They've shocked us out of our complacency," one of you wrote.

You're enraged by things you can't control. In our health-care FaxPoll, almost 1,500 of you told us you felt

...WE DO.

PHOTOGRAPH BY CHRIS CARROLL; STYLED BY TONJUA TWIST

ripped off by the system. You pounded lawyers and doctors and hospitals with about equal fervor, reaffirming the ancient maxim that when you can't get to the bottom of a big social problem, the least you can do is find a scapegoat or three.

But you also have a keen sense of just deserts, as we found when we looked beyond the almost universal fury at the health-care system. If you're from a large corporation, you're more likely to think employees are entitled to unlimited care and can be trusted not to abuse medical services; managers at small outfits are more suspicious of workers and a lot stingier with health-care benefits.

You aspire to visionary ideals. How else to explain our most popular FaxPoll, on strategy? In what was an admittedly loaded question, we asked you to choose between the game plans of United Airlines' Steve Wolf (quick profits) and American Airlines' Bob Crandall (long-term growth). Small wonder that 2,025 people picked Crandall, while only 25 supported Wolf. But by similar overwhelming numbers you also blamed shortsightedness for America's loss of competitive muscle tone. You're willing to take part of the rap for the problem, scolding yourselves for torpedoing long-term planning and for paying too much attention to your own self-interest. Acknowledging the problem, of course, is a far cry from solving it.

Some issues you'd simply rather not deal with at all. Take industrial pollution. Fewer than 600 of you bothered to answer the poll. Of those who did, most wanted to hang offenders by their toenails. But, strong opinions aside, only a handful of you had a clue about what to do with violators once they were caught, much less how to proceed with cleaning up or who should bear the costs. It's easy to see why: By and large, your companies could care less about the environment.

Illiteracy is another bugbear that makes you want to bury your head in the sand. In our March FaxPoll, you told us unequivocally that your work force was being infiltrated by people—managers as well as wage earners—who can't read, write, or communicate. You agree that we are facing a time bomb that's hurting performance, sales, and customer relations. And yet many of you insist it isn't your place to get involved. That's a curiously *un*businesslike attitude: For many managers, the greatest frustration is knowing there's a problem and discovering that nobody wants to do anything about it.

You don't like talking about your dirty work. Consider the poll on layoffs, to which only 827 of you responded. You'd think after all this time—and the fact that layoffs have become as inevitable as inventory checks—people could discuss the subject more openly. Apparently not: Many companies still botch the job, as four in five of you told us. "We don't seem to be able to make the best of a bad situation," observed a reader. "Relationships and politics leave companies limping along with the wrong people in the wrong jobs." If we were being cynical, we might conclude that layoffs are often more of a cash-flow decision than an exercise of good judgment.

You don't rush to gloat over the fall of the enemy. Even the spectacular demise of Drexel Burnham failed to draw a big crowd to the May FaxPoll, "Has Wall Street Whipped You?" The 835 who responded gave us the sense that merger mania had scorched managers across the country. You sounded demoralized and jittery, responsive to every feint by shareholders but deaf to customers. As one of you summarized, "Raiders are the worst thing that has ever happened to business." With the apparent retreat of corporate pirates, whom shall we blame in the coming decade?

Sometimes you're willing to take the easy out, especially when it comes to complex, intractable problems. More than 900 of you—60 percent of all respondents—told us that urinalysis was the best way to prevent drug abuse at the office. But, as one of you pointed out, it's often too little too late: "Testing is like shutting the barn door after the horse has left." To grapple with workplace illiteracy, half of you were eager to throw money at the problem, but fewer than 25 percent of you were willing to roll up your sleeves and get involved with local schools. That doesn't bode well for the future of corporate activism.

You're not easy to pigeonhole. In our inaugural FaxPoll, you shocked us by agreeing almost to a man and woman that ethics are as important as profits. But your sense of scruples is, well, adaptable: 42 percent of you told us it was okay occasionally to break the rules in order to save your jobs, and only 14 percent said paying bribes abroad was a *really* bad thing to do. We also had most of you pegged for Adam Smith-style capitalists. Imagine our surprise when we asked you the best way to safeguard the future of corporate America and many of you dumped on the free market. Most astonishing of all is your willingness to be self-critical. One in six CEOs who responded to August's poll on executive compensation conceded they're getting paid too much. Will they take the next step and persuade the board to renegotiate their contracts?

It's in this spirit of self-examination and debate that we offer "Plugged In," a special issue devoted to the FaxPoll. You've given us a year's worth of responses, a unique database of impressions, opinions, and thoughts that beg for further discussion. Every month, we come back at you in the Feedback column, summarizing and commenting on your answers to a particular poll. But that's not enough. To keep up the exchange of ideas between us, we turn some of your responses into feature-length stories in our magazine; others become the subjects of our SpeakOut column. The point is to keep alive an ongoing dialogue.

In the following pages, you'll find essays, satires, and debates to explore your workday struggles. Throughout, we've scattered FaxPoll Feedback facts and quotes from you that reflect your emotional responses to the various polls.

Don't neglect this month's FaxPoll on the back page. We dare you to say what you think of us—how well or poorly the media covers business. You also have the chance to let us know what topics *you'd* like to see in our second year of the FaxPoll.

Who cares what you think? We do.

PHOTOGRAPH BY CHRIS CARROLL, ILLUSTRATION BY JAMES MONTALBANO

TRADE SECRETS: You tell us more than you suspect when you answer the FaxPoll. How do we squeeze out that information—and what does it mean? Here's an inside look. By Robert Ladner

THINK ABOUT THE DIFFERENCE between an early Victrola and a CD player, and you get an idea of how the FaxPoll has evolved in the last year. When it was first launched, the poll reproduced the many voices of our readers as scratchy, undifferentiated sound. Now, after subdividing your responses by job title and size of company (what pollsters call "control variables"), we can distinguish very different voices with real clarity.

Why should that matter? Because the FaxPoll not only mirrors current opinion; it also suggests emerging trends—critical shifts in thought and feeling—in corporate America. It's one thing to report that 84 percent of all companies feel ripped off by the health-care system. It's quite another to realize that the rip-off threatens the financial stability of heartland small business: Fully 92 percent of respondents at small companies said they were getting a bum deal, compared with only 76 percent of those at the largest corporations. Adding control variables lifts the FaxPoll out of the realm of generality into the arena of sharp particularity, where attitudinal distinctions between, say, CEOs and middle managers jump into focus.

The FaxPoll is a listening and interpretive device. Every month we collect your responses and keypunch them into a computer. Our first crunch on the data is on the level of "38 percent of our respondents would work for a Japanese boss." To turn such data McNuggets into real food for thought, we cross-tabulate the key attitudes, which allows us to assert, for example, that 57 percent of those who'd work for a Japanese boss still think America is being shortsighted in selling corporate assets to Japan. Control variables, such as job title, add a further twist.

There's another reason to use control variables: to see how accurately your responses reflect BUSINESS MONTH's readership. On average, some 1,300 of you participate each month—0.3 percent of our total subscriber base. Asking you to check off your title and company size is no guarantee of a random sample, but it allows us to make comparisons across identifiable groups.

Consider the distinctions we were able to draw in May's FaxPoll, "Has Wall Street Whipped You?" Overall, 70 percent of you felt the fear of being taken over had changed your company, making it either more competitive or increasingly distracted. The real surprise: the underlying victimization of middle management. Presidents and CEOs were almost twice as likely to report the buyout binge had made them more competitive. But nearly half of all department managers said their companies had been badly bruised.

These deep divisions showed up elsewhere in the poll. Having weathered the storm, 29 percent of the "more competitive" respondents felt top management would slack off a bit in the 1990s. By contrast, only 19 percent of the "more distracted" people said executives would loosen up. These respondents were quite cynical: Fully 20 percent felt executive laziness was an outgrowth of its lack of vision. And those who thought executives would not become lazy reasoned that they were now forced to plan instead of react to raiders. It's easy to feel "more competitive" when you're at the helm of a ship of commerce, barking commands at the crew. But life feels very different to managers down below, bailing out the hold.

THE FAXPOLL HAS EVOLVED FROM A CRUDE RECORDER OF SENTIMENT TO A KEEN INTERPRETER OF EMERGING TRENDS

Our July poll on layoffs showed very different responses based on company size. The larger the organization, the more likely that changed economic conditions have forced downsizing. Among companies with fewer than 250 employees, only 45 percent reported layoffs, compared with 70 percent among companies with 5,000 or more people. Smaller outfits tended to compensate severed employees with health insurance, larger employers with generous severance pay.

Finer distinctions emerge when you add two control variables, as we did to our poll on executive pay. Some results were predictable. Ninety percent of top managers felt CEOs made too much money—except when it came to themselves: 84 percent of responding CEOs claimed their pay was "about right" or "too little." Middle managers felt differently—61 percent said their CEOs were overpaid—and 87 percent groused that they themselves were underpaid.

But there were surprises too. Most middle managers said their pay should be adjusted to reflect company performance because it would align their activities with overall strategies. But nearly 6 in 10 CEOs opposed the idea, contending that corporate performance was affected by forces outside the control of most middle managers. Company size also played a role: The strongest supporters of pay for performance were managers and executives in companies with sales under $100 million, clearly those with an entrepreneurial edge; the principle opponents were executives in corporations with over $1 billion in revenues.

As we continue to refine the FaxPoll, our aim is to deliver emerging trends of importance to decision makers. But we depend on you to tell us what you're concerned about. Keep taking the FaxPoll.

Robert Ladner, president of Behavioral Science Research Corp. in Coral Gables, Florida, serves as a FaxPoll consultant.

COMPENSATION

Before the greedy Reagan era, multimillion-dollar managers were rarer than the spotted owl. But now, of course, they're everywhere. Small wonder 90 percent of you complained that American chief executives are grotesquely overpaid.

1,444 RESPONSES

Filmmaker **MICHAEL MOORE** screams: Enough already! Page:

36

STRATEGY

Poor planning threatens to send us the way of the Model T, as 98 percent of you told us. But mere tinkering with an old plan may give your competitors a chance to zoom right past you.

2,050 RESPONSES

Stanford's **RICHARD TANNER PASCALE** shows how risk and radical debate can jump start your firm's idle engines. Page:

38

WOMEN

"That ain't no way to treat a lady," clamored 64 percent of you who want more women managers. Not everyone agreed.

1,924 RESPONSES

So why don't more women make it? **MAGGIE GALLAGHER** says they just don't want to. No way, says **GWENDA BLAIR**: Men can't handle women at the workplace. Page:

42

DRUGS

What action would you take if you caught an employee doing drugs at the office? Send him to counseling, 77 percent of you said. But how do you keep him from reaching that low point?

1,510 RESPONSES

Manage him closely, says **BANK OF AMERICA'S JOHN CAMMIDGE**, but don't test him. Test away, says **PETER BENSINGER**. Page:

60

EDUCATION

Poorly trained workers are a drag on productivity, customer service, and profits, as 7 in 10 of you told us. So how are the other 30 percent managing?

873 RESPONSES

Forget about teaching your employees what they can't learn, counsels **BEN STEIN**. Incite them to work harder by offering juicy rewards. Page:

65

POWER

You say you've lost it—or aren't exactly sure just how to use it anymore.

835 RESPONSES

Being boss used to mean barking orders and smoking fat cigars. No longer. **ROY BLOUNT JR.** croons the CEO blues. But there's still room for nice guys at the top, argues **ABRAHAM ZALEZNIK** of Harvard. Page:

70

JAPAN

While nobody's minding the store, Japanese investors are walking away with vital technologies. No wonder 8 out of 10 of you cried foul in our poll.

1,693 RESPONSES

Dear Mr. President: You blew it. But, according to **CLYDE V. PRESTOWITZ JR.**, it's not too late to save our national security interests. Page:

48

ENVIRONMENT

They're no longer tree huggers in ripped jeans. They're people with a mainstream agenda. They're your *customers.*

537 RESPONSES

You may have neglected our poll, but you can't afford to ignore the issue. **BILL MCKIBBEN** tells why working alongside the Greens makes good bottom-line sense. Page:

54

HEALTH CARE

Nothing makes you feel madder—or more helpless—than those medical costs spiraling out of control.

1,775 RESPONSES

Who do you blame for our sick health-care system? Take a look in the mirror, argues Princeton's **UWE REINHARDT**. The only cure is real reform, and it's your job to administer it. Page:

56

ETHICS

Are you good at telling right from wrong? Nearly all of you scolded two firms for lying to the FDA. But how quick are you to point the finger at yourselves?

1,350 RESPONSES

It's not as easy as you think, says CEO **HARVEY GOLUB** of **IDS FINANCIAL SERVICES INC.** He should know; he's been there. Page:

72

LAYOFFS

The corporate axman cometh often—but his manners are awful, 8 in 10 of you told us.

827 RESPONSES

The slaughter is too fresh for discussion. Not so for **MICHAEL BECKER OF MCDONNELL DOUGLAS**, which axed 17,000. What if Frank Lorenzo were on the other side of the blade? **JOE QUEENAN** fantasizes. Page:

78

LOYALTY

A value that went out with fins on cars—or the last refuge of company yes-men? Few believe they owe their employers blind allegiance, though some still feel a bond with their own bosses.

1,137 RESPONSES

It's a new ball game, says **JAMES TRAUB**. Now employees are free agents whose only loyalty is to themselves. Page:

85

COMPENSATION: The million-dollar-a-year CEO is fast becoming a public enemy. It's now time for America's executives to ask, How much is enough? By Michael Moore

CRISSCROSSING THE COUNTRY on a promotional tour for my film, *Roger & Me*, I found myself, through the generosity of Time Warner, sitting in the first-class section of some of our nation's finest air carriers. Seated around me were a sea of corporate types—suit gangs, I called them—most of them reading the latest Tom Clancy hardcover (a sign that the market was shining on them), the rest of them nervously thumbing through stacks of computer printouts. When they saw me take my seat among them, there was a murmur the likes of which is only heard when the flight attendant announces that they forgot the liquor tray back at the gate, "but we should be arriving in Tokyo soon."

Word soon spread to the uninformed that I was *that* guy who made *that* movie attacking General Motors, Roger Smith, Big Business, Apple Pie, and, indeed, our entire way of life! It was heartening to see that so many executives had seen *Roger & Me*. Their reasons for going to see it seemed to fall into two categories: 1) smug reaffirmation that they were somehow better than Roger Smith (or if they weren't, they at least would have the PR savvy never to have allowed some upstart filmmaker to get the best of them), or 2) it was important to see the movie so that they would know what the enemy (that is, "the people") was up to. Some of my first-class compatriots sought to engage me in a heated argument. Others wanted to assure me that, unlike Roger, they had social consciences. (There were times when I couldn't take it anymore—and had to go back and sit in coach.) A few were just so angry to have me sharing their complimentary hot towels that they couldn't speak to me. Instead, they wrote me long letters and handed them to me before departing from the plane. One began, "Even though an ingrate like you wouldn't believe it, executives have feelings, too!" I was so touched I almost began to cry.

Those who did want to talk, I would ask if they ever used the word *enough* in their daily vocabulary. Not in the sense of "My employees are paid enough!" or "OSHA's been here enough!" but rather "I guess I made enough money last year." That statement seemed like blasphemy, because in the language of capitalism there is no such word as *enough*. Who has ever heard of "enough profits"? Which CEO has ever uttered the words "I am paid enough"?

WHAT WELL-PAID EXECUTIVES FAIL TO REALIZE IS THAT THE CARROT IS ON A STICK—AND THAT IT'S OUT OF REACH FOR MOST WORKERS.

I understand that's not the way we play the game. The response I usually received was that the incentive of larger profits and a raise in executive pay guarantees a stronger economy—and that this largess will trickle down to the common workers. Unfortunately, this is not the case. The '80s were a great decade for those on top. Before Reagan took office, it was virtually unheard-of for a CEO to make $1 million a year. Today it is not uncommon for these executives to make $3 million annually in salary and bonus, with some raking in as much as $12 million.

Meanwhile, the rest of the country hasn't fared as well. Wage increases have been virtually nonexistent. Unions now represent only 16 percent of the American work force. The ranks of the poor and the working poor have risen. Hundreds of thousands of well-paying manufacturing jobs have been eliminated. True, a lot of new jobs have also sprung up, but they are lower paying and without benefits. Young families can no longer afford to purchase a home, a new car, or braces for their kids' teeth. The middle class is shrinking at an alarming rate.

The increase in profits and dividends in the '80s did not cause companies to hire more people and create more goods but rather to purchase other companies or to use their cash to make more cash. Take General Motors, for example. The six most profitable years in the history of the corporation took place in the past decade. Yet during that time, GM laid off tens of thousands of workers. This made no sense to the average employee, who had always believed in the basic premise of the American Dream: If you work hard and the company prospers, you prosper. Now it's, You work hard, the company prospers—and you lose your job!

Granted, there's not much money these days to be made from heavy manufacturing—which is why nearly a fourth of GM's profits come from its own lending institution, GMAC. Those profits were then used to buy other corporations, such as Hughes Aircraft and Electronic Data Systems. And, of course, there was a little left over for the top executives, who all enjoyed hefty increases at a time they were convincing the union to cut its members' wages and benefits. For all his success, Roger Smith asked for and was given a 70 percent increase in his pension, to $1.2 million a year. (His rationale was that GM was losing "good people" because of its low pensions. When asked who those talented people were, he couldn't seem to remember any of their names.)

Whether it's Roger Smith and his million-plus pension or A&P CEO James Wood "earning" $28 million last year, you have to wonder how that's sitting with the guy earning $5 an hour for making engine parts (he used to earn $15) or the single mother at the 7-Eleven who discovers she makes too much money to

FAXPOLL FEEDBACK
'FORGET BONUSES. WE NEED MORE BASE SALARY TO MEET LIVING EXPENSES.'
84% feel their companies are being ripped off by the health-care system
56% grumble that their companies are not involved in any community cleanup of the environment
Gender Offender
'My CEO's pay is totally out of line for an ex-high-school coach who married well.'

qualify for the food stamps her children desperately need. I believe that a rapidly growing number of Americans have simply had it. They are fed up with this incredible disparity between the rich and the poor.

In fact, the more CEOs are raking in, the stronger the anticorporate sentiment that is taking hold in this country. In recent polls, the American public ranked Big Business among the "least trusted" groups—down there with politicians and used-car salesmen. Boesky, Milken, the Exxon oil spill, the defense industry ripoffs, and, most notably, the savings-and-loan scandal have caused the average citizen to realize that corporations do not have his or her best interests at heart.

What will all of this distrust and disgust lead to? Good things, I believe. Communities will no longer allow companies to pollute their air and water. Workers will realize that they have nothing to lose by trying to unionize (the jobs are being exported anyway). Politicians in the pocket of the S&L industry are going to find themselves in early retirement. The honeymoon for Big Business is over. You should have let some of it trickle on down.

Recently, while back home in Flint, I participated in a debate with the local president of the chamber of commerce in front of a group of visiting Soviet teachers. As he attempted to explain how a few in our country get really rich, he pointed out that our system is based on the concept of "controlled greed." We have it set up, he remarked, so that anyone can get to the top. The carrot that must be placed in front of us, he said, is the belief that one can make a lot of money here. What he failed to point out was that that carrot is on a stick, held out of the reach of those who are chasing it. The small percentage who grab the carrot have forgotten to share it. It's a mistake that will soon come home to haunt them.

Michael Moore, the director of Roger & Me, *has given half of his net proceeds from the movie to charitable and political causes.*

PHOTOGRAPH BY JOHN WILKES

STRATEGY: So you think you've got a winning formula. You can diagram it. It fits on the grid. It worked great last year. Wonderful. Until you finally realize you missed the business opportunity of a lifetime. By Richard Tanner Pascale

NOW THAT IT'S FALL, IT'S TIME ONCE AGAIN TO WORK on your company's strategic-planning cycle—a drudgery as inevitable as cleaning gutters choked with leaves. Otherwise bright and inquisitive executives line up for the dull incremental drill, knowing full well that their efforts to raise the really big questions will be either scuttled or ignored. They've resigned themselves to milking more out of the proven strategy, rarely challenging basic assumptions or engaging in a debate about where their business, much less their industry, might be headed.

Why must so many companies take a formula for success and perfect it to such a degree that they sow the seeds of their own decline? Consultants—and I am one of them—are partly to blame. This propensity for overspecialization in an existing niche has been unwittingly fed by people like Harvard's Michael Porter. You've all heard about his "value chain," those company activities that can be diagramed and locked up in grids to point out the supposed source of competitive advantage.

Clearly, the rigor of such an approach has benefits. But one result, unhappily, is that companies are now pouring more energy than ever into taking a good thing too far. United Parcel Service, an ardent practitioner of Porteresque ideas, has been squeezing the maximum out of its value chain as a parcel-delivery service. But by concentrating narrowly on how parcels should be moved (mostly by truck) and at what speed (three to five days), UPS missed the burgeoning market for faster, one-day air delivery that was pioneered and exploited by Federal Express. UPS is still playing catch-up.

QUESTION: WHAT DO WALTER WRISTON AND ALBERT EINSTEIN HAVE IN COMMON? ANSWER: A NEW TAKE ON THE UNIVERSE.

Why we continue to wander down well-worn strategic paths has its origins, in part, in the way people think. The human mind thrives on patterns. Concepts about how an industry is defined or convictions about winning strategies within an industry are examples of such patterns. Scientists call these patterns paradigms. In his provocative book, *The Structure of Scientific Revolutions*, Thomas Kuhn first popularized the term *paradigm* as "a constellation of concepts, values, perceptions, and practices shared by a community which forms a particular vision of reality that is the basis of the way a community organizes itself."

Because they are belief systems shared by the community, paradigms are seldom questioned, much less challenged. If a new fact or idea contradicts the belief system, the rationalization is, "We're not yet smart enough to figure that one out." In this scheme, people spend most of their time mopping up: Instead of innovating, they work on small puzzles that can be solved within the existing paradigm. Eventually, however, the puzzles pose a growing and frustrating challenge to conventional wisdom, shaking the community's belief. A radically different view of the world emerges and is met first by tremendous resistance and, much later, acceptance.

The clearest example of a major paradigm shift is Einstein's theory of relativity. Early in this century, Newtonian mechanics began to unravel as a result of a series of experiments on matter as it approached the speed of light. Einstein's theory, which explained these contradictions, didn't completely knock out the old paradigm, but it changed the context for thinking about it, upending the classic belief system. Other physicists instinctively recoiled at the new explanation of matter. It was only after the postulation of quantum mechanics and particle physics that Einstein's paradigm gained acceptance.

In the same vein, many executives have a hard time intellectually and viscerally accepting new strategic paradigms. Few are intuitively obvious; most challenge basic, age-old assumptions—for example, that you can have high quality *or* low-cost production, but not both. Then the Japanese came along and proved that both were possible.

Some of the smartest entrepreneurs ignore potential paradigm shifts—even when they're right in the middle of them. While Howard Head introduced the world to metal skis, he completely missed an opportunity to redefine an industry. Yes, he saw that metal skis delivered higher performance than wooden skis. But he failed to capitalize on the idea that new technology could be applied not only to skis but to bindings, boots, poles, camping gear, and clothing as well. Other companies exploited the possibility that, as the technology evolved, athletic equipment had built-in obsolescence. With that insight, they were able to turn a prosaic, once-in-a-lifetime purchase into a fashion-driven, repeat-order business.

It's human nature simply to refine the successful formulas of the past. But it's dangerous to become so absorbed in tactical maneuvering that you give up the search for superior strategic paradigms. Breakthroughs require a change in frame of reference. Examples: Walter Wriston, who changed the nature of banking from a money-moving business to an information-mov-

ing enterprise; or McDonald's, which revolutionized the hamburger business by introducing uniform quality and a predictable experience for the nation's taste buds.

A more recent paradigm shift can be seen in Walt Disney Company's latest financial strategy, which is changing what it means to be in pictures. Movies, of course, are a high-risk crapshoot, and Disney engages in its share of these ventures singlehandedly. But over the last several years, it has increasingly spread a portion of that risk to individual investors through limited partnerships that raise funds for screenplays and production costs. By altering the traditional financial paradigm, Disney has partially insulated itself from the boom-and-bust cycle of filmmaking.

The Japanese have readily grasped the importance of strategic paradigms. They saw in one industry after another that competitors were gradually closing in on their edge in cost and quality. So they began looking for a different paradigm to sustain their competitive advantage. They concluded that, by and large, Japanese companies have superior organizational capabilities. They communicate more efficiently, network better, and handle the lateral relationships among design, engineering, and manufacturing in a more efficient way than most American corporations.

The new Japanese edge: strategies based on speed. It shows up in Honda's ability to take an automobile from concept to customer in a mere two and a half years. That compares with four years for Ford and eight for General Motors. The speed paradigm provides a formidable competitive weapon. It means that Honda is developing its third-generation product while GM is still grappling with its first. In one industry after another—from consumer electronics and computers to machine tools and capital equipment—the ability to get to market faster

PHOTOGRAPH BY E.R. DEGGINGER/EARTH SCENES

has become the ultimate battleground for strategic advantage.

One of the greatest perils confronting American companies today is that our concept of strategy is largely tactical, not truly strategic. Tactics can't be completely ignored. Understanding the economics of a business, identifying strengths and weaknesses in the value chain, allocating resources to improve competitive advantage in traditional ways—all these require considerable attention.

Yet in themselves tactics are insufficient. In a world of global competition, with so many players scrambling for advantage, we can be certain that paradigm shifts in strategy will be more frequent than ever before.

But how can companies provoke strategic renewal on an ongoing basis? The answer isn't to ship off the strategic-planning group to workshops on creativity, brainstorming, and lateral thinking. It's much tougher than that.

There is an important law of cybernetics—the law of requisite variety—that states that for any living system to respond to shifts in its external environment, it must cultivate variety within its internal world. What do we mean by "variety"? Variety shows up as differing points of view, the siphoning off of resources from core projects into skunk works, even deviant behavior. *Variety* is synonymous with that naughty word *contention.* Most executives are very uncomfortable with contention; indeed, it's usually associated with a state of organizational ill health.

But that's primarily because we manage contention badly—by personalizing it, smoothing it over, or escalating it into warfare. Current research suggests how organizations can create conditions to channel contention productively. It's a cheap and abundant fuel that can spark creativity, provoke new insights, and challenge the status quo. Experience in recent years, particularly at companies such as Ford Motor and General Electric, has shown that organizations can upgrade their skills in harnessing contention into something productive—learning to rock the boat to keep our paradigms current.

Richard Tanner Pascale, author of Managing on the Edge: How the Smartest Companies Use Conflict to Stay Ahead, *is a lecturer at Stanford University's Graduate School of Business.*

WOMEN: The glass-ceiling excuse is so much nonsense. So is discrimination. Many women don't reach the top because they just don't want to. By Maggie Gallagher

AROUND 10 A.M., THE PHONE rang. It was the White House on the other end of the line, asking if I was interested in a position as a speechwriter. How did I react? Adrenalin surged. I felt my heart pound and my ego expand. Delusions of grandeur danced in my 27-year-old head: power, prestige, career advancement, more money. Taking a deep breath, I asked for 24 hours to think it over. Then I told them:

No thanks.

Many people would call me crazy. In the prevailing worldview, where workers are presumed to be scrambling madly up the ladder of success, my decision certainly made no sense. But then, the choices women make often don't. Like, for example, the choice not to be boss.

If I am crazy, I am not the only one. In the past 20 years, women have flooded the work force. Yet a stubborn majority of them remain firmly in female occupations and female career tracks. The same pattern holds even among women under 35, where the majority work in such traditionally female occupations as teaching, nursing, sales, and clerical work. Do they fill these jobs out of frustration? I don't think so: Never before have women felt such strong cultural and economic pressures to seize new and seemingly genderless opportunities.

The answer, I think, is twofold, but rooted in the fact that men and women seek different kinds of satisfaction in their work. First, most women pursue jobs that allow them to spend time with their children. Second, many women look for positions in which they do not have to climb hierarchies.

Even within professions once dominated by men, such as law, women tend to cluster in certain jobs: They practice family law, not corporate litigation. Women with powerful job credentials—a medical or law degree, for instance—are far more likely than men to use their market leverage to gain flexible hours or to work part-time. In fact, women are three times more likely than men to work part-time, according to a 1990 Brookings Institution study by Northwestern University economist Rebecca Blank, and far more women than men say they work part-time because they want to. The Bureau of Labor Statistics tells us that only a little over half of working women are employed full-time all year round and that 57 percent of married women with children either don't work or are employed part-time. With the explosion of small, home-based businesses, nearly one-quarter of all working women operate from their own homes.

Most women deliberately avoid following male career paths. It has nothing to do with being brainwashed by patriarchal culture or being too oppressed by lack of day care. It has nothing to do with glass ceilings. Just look at the examples of women who have broken through the glass ceiling and can afford full-time housekeepers—and yet still cut back at work to spend time with their families.

Case in point: Jane Pauley. Last spring, she ruled out becoming a coanchor on the *NBC Nightly News* because the 7 o'clock airtime would have meant getting home after her children were in bed. Like many successful women, Pauley was concerned that her decision might be used against other ambitious women. "I have obliga-

tions that would make certain assignments impossible. But they wouldn't be impossible, say, for Connie Chung or Diane Sawyer," Pauley told an NBC-affiliates convention. Then Connie Chung announced she was cutting back her hours in order to concentrate on having a baby. High-status jobs or no, these women want to enjoy their children. When the White House or any other prospective employer calls me, the first question I ask is, Can I leave at 5 o'clock?

There's another factor: What women enjoy about a job is often very different from what men find rewarding. It's not really a matter of money or title. Despite lower pay and pink-collar jobs, for example, most studies reveal that working women's reported job satisfaction is just as high as men's. But men more often value what social scientists call "task autonomy." They want a job in which they are in charge of their own work. Women, on the other hand, place a much higher value on social rewards, such as good relations with colleagues and supervisors. They are also more likely than men to want their work to be "interesting."

Women flock to female professions because they like to work with other women, in jobs tailored to meet women's needs and desires. Teaching, social work, and nursing are valuable professions in which employees measure success by how much good they do, not how high up the hierarchy they're able to climb. These female professions are also structured to allow women to drop out or cut back when children are small and drop back in again as their kids grow up. Women choose to run home-based businesses for much the same reasons: maximum flexibility and minimum hierarchy.

As we encounter the labor shortages of the 1990s, businesses must meet human needs, most especially the needs of women, who form the largest reserve pool of educated workers. And that is exactly what the marketplace has begun to do. Mommy tracks were not invented by managers eager to keep women in their place. They were created by managers who noticed that they were beginning to lose too many of their best and brightest women. Female professions and career paths aren't lingering remnants of past oppression but harbingers of the wave of the future—testimony to the ability of a free market to respond creatively to the desires not only of consumers but of workers as well.

Maggie Gallagher, former article editor of National Review, *writes frequently about women's issues.*

MEN VS. WOMEN: Imagine two men in a boardroom. One says, 'Gee, you look like a hunk this morning.' Ridiculous? Maybe. But it still happens to women every day. By Gwenda Blair

DURING THE 1970S, THERE was a riddle that never failed to stump an audience. It went like this: *A man and his child are in an auto accident. The critically injured child is brought to the hospital for emergency surgery. The surgeon goes into the operating room, looks at the patient, and gasps, "I can't operate; it's my son!" Who is the surgeon?*

Everyone I knew was stymied—and then chagrined to learn the obvious (but, at the time, unthinkable) solution. The surgeon was the child's mother.

Nowadays a female surgeon—or, for that matter, lawyer, politician, or investment banker—is no longer unthinkable. Women are nearly half the work force and make up 40 percent of a grab-bag category the U.S. Labor Department calls "managers and administrators." Women sit in Congress, in the Cabinet, and on the Supreme Court. We're not quite at the Pearly Gates yet, the pundits agree, but in a remarkably short period of time, we've launched ourselves toward the kind of future portrayed in *Star Trek*, where men and women mix easily in the workplace and nary a trace of conflict between the two is ever seen.

Yet somehow that easygoing, harmonious future where men and women work as comfortably with each other as they do with colleagues of their own sex has never arrived. (Even on *Star Trek*, come to think of it, the commanding officers are all male.) Women still complain that they are made to feel like intruders in the boys' club. If they are not ignored, they are treated like sex objects, which is even worse than being ignored. Men, for their part, complain that women haven't learned how to fit in. As one senior executive at US Sprint (who asked that his name not be used because his wife would not approve of his remarks) put it, "I wish I could say that I like working with women, but the truth is it's an awful lot of trouble. With a man, I know where I'm at; with a woman, I'm at sea. They just don't act like they know what they're doing."

IF YOU THINK IT'S HARD TO BELIEVE THAT WOMEN AND MEN CAN WORK TOGETHER PEACEABLY, TRY TREE HUGGERS AND BEAN COUNTERS ON PAGE 54.

The result, as the world knows, is that women executives seem to run into a glass ceiling that blocks their careers. In fact, there are so few women in the upper echelons of the nation's largest corporations that Secretary of Labor Elizabeth Dole has launched a "glass-ceiling initiative" to help women and minorities break through to the top.

What happened on the way to that state of androgynous bliss? According to Darlaine Gardetto, professor of sociology at the University of Missouri, the real story is what *didn't* happen. Despite the enormous increase in the number of women employed, there has been almost no change in the distribution of women through the work force. They are still

overwhelmingly concentrated in what are considered pink-collar jobs, such as office managers, teachers, nurses, and social workers. In other words, roughly the same proportion of all jobs, 20 percent, continues to be considered female turf as was true at the turn of the century. As a result, although women have been streaming into the workplace for decades, those who venture out of a narrow range of occupations find themselves faced with the unexpected (and unwelcome) task of having to hack out trails they assumed had been blazed long ago. Despite media insistence that we live in a "postfeminist" era, many, if not most, men have yet to adjust to working with the opposite sex, and many, if not most, women are unsure of how to behave when they are suddenly thrust into an all-male enclave.

THIS IS NOT A THEORETICAL issue of interest only to academic social planners poised over their drawing boards. Like it or not, the work force is changing. White men represent only 15 percent of new entrants, which means that employers who limit themselves to that segment are limiting their own competitiveness. Good managers know that; they just don't know how to deal with all these women and minorities they've had to hire.

The fundamental problem is the old philosophical difference between equality and identity. Men and women may be equal, but they are not identical—and nobody knows what to do about the difference. In social situations, they celebrate that difference; in work situations, they are supposed to ignore it, which almost nobody manages to do. When women try to circumvent the difference by acting more like men, the men are resentful (and often confused). When women stick to traditional "female" behavior, men tend to see them as mothers and/or lovers, not colleagues.

And even those women who manage to strike a balance between the two poles say it is close to impossible to avoid being viewed as "the other" when you're the only female at the conference table. "It happens in little ways, even with the best-intentioned guys," says June Peoples, vice president of a technical market research firm in Seattle. "You'll be sitting down to some meeting, and one of the men will suddenly pop out with, Gee, you look really gorgeous today. I mean, come on. Can you imagine them saying to each other, Hey, you sure look like a hunk this afternoon. I don't need to be singled out like that."

On the other hand, many women don't like it when they really are treated no differently from the next man. "Women are put off by the kind of competition and criticism that men take for granted and then laugh about over a beer," says Madeleine Swain, president of Swain & Swain, a consulting firm in New York. Unfortunately, there's more than a clash of sensibilities at stake here. When men see tears, they conclude that women are fragile and back off, which means that women are deprived of the day-to-day feedback needed to fix small problems before they become big ones.

Even if men do manage to ignore the differences between the sexes, they often end up judging women as if they were men—which, of course, they aren't. For a primer on the differences, just check out your nearest playground. The little boys are running, tussling, shouting, and competing over even the tiniest accomplishments ("I stepped off the curb before you did"). Girls are planning their birthday parties, looking over each other's clothes, figuring out the relationships between everyone in sight, and whispering, "I know a secret."

Translated into adult behavior patterns, this means that men tend to act first and ask questions later and that women tend to do the exact opposite. They want to think things through and make sure they're on the right track, the kind of cautious approach that can (and often does) drive a guy up the wall. Worse, they have a habit—irritating in the extreme to a man in a hurry—of wanting to talk about whether a course of action is fair to those involved and how it will make them feel. To Harvard psychologist Carol Gilligan, this is evidence of women's "moral development"; to men it's the kind of hemming and hawing that doesn't belong in an office.

"Men tend to think the way you take charge is loudly and visibly, leading the charge up the hill," says Thanos Triant, director of business systems for Sun Microsystems in Palo Alto, California. "Women's style is less gung ho. Rather than shooting from the hip, they draw people in, trying to gather more information before coming to a conclusion." Obviously, judged by one sex's standards, the opposite sex will be found wanting. And because most of the time it is men who are doing the judging, it is women who are falling short.

But why should either sex have to fall short? Given that 1) men and women will never be identical, and 2) both male and female styles have strengths, what we need are workplace standards that value both. For every occasion that requires a quick judgment call, there's another where the ability to listen carefully and pay attention to nuance is critical. In fact, says Swain, in an increasingly global economy, women's ability to read body language, to pick up on subtleties and change direction midcourse may give them an edge.

But that's the Big-Picture Approach. In the meantime, on the everyday level of how to relate to the woman/man in the next office right now, even an ounce of accommodation can go a long way. For example, the men in June People's office could eliminate some static if they complimented her on her appearance *after* a business meeting. Likewise, the women at US Sprint would find life with at least one senior-level executive a lot smoother if they didn't share their hesitance and insecurity quite so freely.

Wishful thinking? At one time, I might have thought so. But that was before I began to pay attention to my husband's softball team. Five or six years ago, the roster at this Saturday afternoon activity consisted of about two dozen men and perhaps five women, all of whom knew each other professionally. The women were not exactly first draft choices. All the men played better than they did, and almost all of the men would have been happier with an all-male squadron. League rules insisted that women be allowed to play. But

FAXPOLL FEEDBACK

'AMERICA BELONGS TO AMERICANS.'

A New Pledge of Allegiance

A fair number of you (nearly 22%) claimed that the worst thing about selling U.S. assets to Japan is losing a sense of national pride. (As one of you wrote, 'It's a good thing Mount Rushmore isn't up for sale.')

But you're no ordinary red-white-and-blue patriots: Almost half of you said you'd work for a Japanese boss, and 48.5% contended that Japan's acquiring existing companies such as CBS Records and Firestone Tire & Rubber was actually *good* for the U.S.

86% of you would be proud to work for a woman boss

51% of you trust your employees enough to give them more say in day-to-day operations

41% of you take pride in the way your companies handle layoffs

PHOTOGRAPH BY MARK JENKINSON

those rules didn't mean anybody had to make them welcome, and nobody did. They were always chosen last, they were always posted to the very farthest reaches of right field, and they would find their turns at bat skipped over if a game was close.

But something happened as the years rolled by. For one thing, more women showed up, and they gradually got better. Not great, but definitely better. Moreover, the fierce arguments that used to punctuate the afternoon began to diminish. It's been several years now since they've had an actual screaming fight. When there's a truly close call, more often than not it goes the way of the losing team. And when my husband comes home, he's a whole lot happier. The caliber of play may have slipped slightly, but the actual object of the game—to relax and have fun—is accomplished far more often.

The other day, one of my husband's teammates muttered that if his office were as diverse and accepting as his team, they'd get one hell of a lot more work done. In other words—at least this is how I see it—he has seen the future, and it works.

Gwenda Blair writes on business subjects. Her most recent book is Almost Golden: Jessica Savitch and the Selling of Television News.

JAPAN: Okay, so we let them have cars and TVs. But now we're selling off our vital interests. George Bush, it's time to check in. By Clyde V. Prestowitz Jr.

Dear Mr. President,

LEST YOU MISS IT IN ALL THE MIDDLE Eastern excitement, I would like to request that you focus your attention for just a moment on the CFIUS issue.

No, CFIUS is not a social disease. It is the Committee on Foreign Investment in the United States. Currently chaired by the Treasury Department, the committee makes decisions that may have much more impact on future national security than Saddam Hussein's next move.

As you may recall, CFIUS is supposed to review new foreign investments in our country, recommending that you nix any deal that poses a potential threat to our national security. But in the absence of White House direction, CFIUS has been falling down on the job.

Earlier this year, Union Carbide decided to sell its polysilicon division to Japan's Komatsu Electronic Metals Corp. Polysilicon is the basic material for the production of semiconductors, which, of course, are the foundation of today's electronics industry, not to mention of advanced weapons systems. But Union Carbide didn't make just plain old polysilicon; it made the most advanced type. In fact, it was the only patented producer of ultrahigh-purity polysilicon now being tested by the Pentagon for use in the Star Wars program.

Then there was the case of Semi-Gas Systems Inc., a division of Hercules Corp. and the major American producer of the gases and containment systems used in making semiconductors. It was recently sold to Nippon Sanso.

Both deals were reviewed and approved by CFIUS, which surrendered effective control of key parts of the U.S. electronics industry—an industry on which our national security rests—to foreign companies.

This may be the first time you ever heard of these cases. No wonder: CFIUS is run at the deputy-assistant-secretary and office-director levels, some six or seven tiers of bureaucracy away from

you, a location that speaks volumes about the importance the U.S. Government attaches to the question of who controls vital industries. Still, I am sure you know the rationale on which the decisions were based—it flows directly from your report on the state of the U.S. economy, written under the direction of the Council of Economic Advisers.

It was said that foreign investment would create jobs, help alleviate the scarcity of capital in the U.S. economy, bring transfers of technology and new management techniques, strengthen manufacturing as well as R&D capabilities through new investment, and give U.S.-based operations better access to the difficult Japanese market.

There was no need to worry about insidious foreign control, the argument went: Japan is a friend and ally whose interests are virtually the same as our own; to consider otherwise was to engage in gratuitous bashing. Besides, it was said, if such companies were not sold to the Japanese, they would have to be auctioned off at lower prices to U.S. buyers—if any could be found.

Finally, any concern about sectoral capabilities of U.S. industry would amount to an industrial policy, a terrible no-no in recent years. In the stirring words of Richard Darman, your director of management and budget, "What do we want a semiconductor industry for? If our guys can't hack it, let them go."

And let them go you did. CFIUS did not think to ask the new investors to give assurances about new investment, continued R&D spending, job creation, transfer of technology, or anything else. Nor could CFIUS count on much help from the rest of the government to determine the likely behavior of these new owners. The reason: Present practice prevents the Census Bureau, the CIA, the National Security Agency, or any other data collector from sharing truly useful intelligence with CFIUS.

These troublesome questions will not, like your dog Millie's recent bout of indigestion, go away easily. In light of the unwillingness or inability to deal with the domestic budget deficit or the trade deficit, you can expect a continuing torrent of foreign investment into our country. This is a critical opportunity to reexamine the assumptions underlying the de facto policies of your administration.

• JOBS. The truth is that while foreign investment may create jobs, it can also take them away. Indeed, according to *The New Competitors: How Foreign Investment Is Changing the U.S. Economy,* the authoritative book on the subject, in the past decade foreign investment has resulted in a net loss to the U.S. economy of roughly 55,000 jobs.

How can that be? Simple. If a foreign company acquires an existing plant, as in the cases of the polysilicon divison and Semi-Gas, no new employment is created unless operations are significantly expanded. Frequently, following an acquisition, some activities are shifted abroad, creating a net loss of jobs.

• CAPITAL. In some cases—such as Materials Research Corp., a supplier of high-technology materials to the electronics industry lately acquired by Sony Corp.—U.S. companies might have gone out of business, laid off workers, or restricted operations for lack of adequate capital. But in other instances, that is far from the case. Semi-Gas, for example, is a very profitable operation that was the object of a bid by an inside group of managers. But the Japanese made a larger offer. And in the absence of any policy response from your administration, the Hercules board was duty-bound to accept the higher bid.

• TECHNOLOGY TRANSFER. This is the heart of the issue. Certainly, many U.S. steel companies have benefited from infusions of Japanese technology as a result of several joint ventures. But in perhaps a majority of cases, including Semi-Gas, the transfer has been out of the United States. In the last few years, hundreds of U.S. high-technology start-ups have accepted foreign investment at a huge national cost: namely, transferring at least some proprietary technology abroad.

STRATEGIC TECHNOLOGY ISN'T THE ONLY THING THAT'S SUFFERING FROM MALIGNANT NEGLECT; SO IS OUR HEALTH-CARE SYSTEM. SEE PAGE 56.

Worse still, our universities, those cradles of technology, are now being seduced by similar offers. Hitachi Corp. recently concluded a deal under which it will construct a laboratory building at the University of California at Irvine. There's a catch, of course: In exchange for its munificence, Hitachi will have control of certain patent rights applicable to new discoveries made by university biotechnology researchers, most of whose work is actually subsidized by California taxpayers.

Should these deals be made at all? Forget the fact that many who come here with billions of yen to invest are the very Japanese companies whose dumping and predatory collusion played a major role in the virtual disappearance of the U.S. television and DRAM semiconductor industries. Does a new Japanese auto plant in the U.S. actually contribute to the wealth of the nation? Not if it results in the closure of U.S. plants, or if a large portion of its components come from overseas. Not if the foreign investor contrives to pay few, if any, taxes.

THANK THE INDIVIDUAL STATES for some of the predicament. Without any guidance from Washington, several states have established industrial-development policies of their own, opening offices in Tokyo and Brussels to solicit investments. More often than not, these states wind up competing with one another to see who can give away the most in tax and other financial concessions to lure a chunk of foreign money.

Only you, Mr. President, can bring some rhyme and reason to the situation. But you can do so only if you reject simplistic dogma and begin to deal with foreign investment in the same analytical fashion in which you approach Soviet or Middle East policy.

The fact is that foreign investment is neither always good nor always bad. If it adds employment and net new wealth, if it results in at least as much technology being transferred to the U.S. as is taken away, if it truly improves management—and if it does all this without compromising our political processes or reducing our freedom of action in the international arena—then it is definitely good. But if it does not do these things, it could be more of a threat to our national security than anything the Russians or Iraqis have ever dreamed of.

I suggest, therefore, that you make developing a sensible policy on foreign investment and a revitalized CFIUS a matter of the highest priority.

Respectfully yours,

Clyde V. Prestowitz, Jr.

Clyde V. Prestowitz Jr.
President
Economic Strategy Institute

ENVIRONMENT: "Radical" protesters may seem like your enemies, but they're the best friends you have. Working with them will help you cut future waste—on your balance sheet. By Bill McKibben

Your shareholders' meeting smells a little fishy—perhaps because some protesters have dumped 500 pounds of dead fish next to the dais. The fish come from across the river beneath your plant, the same river where some radical activists welded shut your effluent pipes. The not-so-radical environmentalists have filed seven lawsuits in the past two years, and the federal government—despite the best efforts of your local congressman—just levied a seven-figure fine for violations of the Clean Water Act. Oh, yes, the consumer boycott seems to be catching on....

The sulfurous stench of the paper mill doesn't smell so much like money anymore; the sooty haze doesn't look so much like progress. Many good, tough businessmen have figured out that environmentalism is no longer a fringe movement—that it's going to be one of our preeminent industrial realities. It's far too soon to say that American consumer capitalism has "gone green." But, as on a bright March day, you can look up to the hills shedding their snow and see at least a *hint* of green.

The evidence is abundant. On Earth Day, scores of big companies—including quite a few with abysmal environmental records—rushed to contribute money. In the stores, "environmentally friendly" products have grown on the shelves like mushrooms after a week of rain. And the commercials! If you read the ads for McDonald's, you would think they were a sort of giant recycling agency that happened to serve hamburgers on the side.

Why the flurry of activity? Corporations are starting to see that conservation isn't the profit-draining burden it once seemed. In fact, given the new realities of the 1990s, they're finding that waste reduction and pollution control make sense (by saving cents) in the long run--and that as a result, their agenda seems closer to the environmentalists'. True, the motivations are different: the Greens protect the shore line, while companies protect the bottom line. But the very notion of common ground is something managers dismissed long ago, so maybe they're making progress.

All this hasn't happened overnight, of course, and it's easy to see why. Corporate boards don't yet believe that environmental activism is a sound business strategy. The concept is a bit too new for them to fathom. And the issues are complicated. Environmental problems tend to get lumped together, as if ozone holes and the landfill crisis were more or less the same thing. But the environment is at least as complicated as the economy, and it can't be dealt with all in one piece any more than a single policy can both stabilize global interest rates and increase market share for Mazda Miatas.

TIMES CHANGE. IF YOU READ THE NEW MCDONALD'S ADS, YOU WOULD THINK THEY WERE A GIANT RECYCLER THAT JUST HAPPENED TO SELL HAMBURGERS AND FRENCH FRIES.

As they strive to clean up, companies need to recognize the two types of pollution they produce. The first occurs when something goes wrong—when some waste turns out to kill fish, when some chemical happens to trigger birth defects, when someone builds an oil tanker with one hull instead of two and it runs aground and all of a sudden the Alaskan brown bear is the Alaskan black bear and dead to boot. It's a kind of pollution most of us are used to thinking about because we can see it and its effects. If you own a factory, chances are you belch out something in this category.

This assault on the environment will disappear, I think, more quickly in the next decade than it has in the past. It's technically possible to clean up these wastes: You put a new filter on the smokestack, develop a new processing technique, maybe sacrifice a product line. And it will save you money. I'm not entrepreneur enough to know how much money there is to be made eliminating these messes, but I'm politically astute enough to guess that there's an immense amount to be lost ignoring them. And not just money. The next generation of Milkens and Boeskys—the next generation of people draping overcoats over their handcuffs—will have nothing to do with junk bonds. They'll have to do with *junk*, with carcinogens seeping into the air.

But there's another type of pollution that's more worrisome, that seems to have escaped the grasp of managers thus far. It results not from some small defect but simply from the basic operations of our industrial society. This type will be infinitely harder to fix, for its benefits are closely tied to its problems.

Consider packaging. Having spent a century convincing consumers that everything must be mummified in as many plastic, glass, and paper sarcophagi as possible, we now need to undo all that work. People won't go to jail for shrink-wrapping everything in sight, but they will face increasing economic troubles. Confronted with a garbage crisis, we will soon be taxing the hell out of unnecessary containers. The very notion of convenience, which is at the bottom of innumerable product-line extensions and advertising campaigns, may have to shift dramatically to accommodate these new realities.

The same with energy waste. Before the current crisis in the Middle East, the price of oil was lower in real dollars than it was before the last OPEC embargo; thus thriftiness has declined. The availability of cheap energy turned American businesses into snorting, grunting fossil-fuel hogs. So—astoundingly—even though conservation might now undercut Saddam Hussein's economic health, it's not a weapon we're prepared to wield. Case in point: American companies, anticipating expansion, have tended to buy larger motors than they need; however, large motors are inefficient if they run at less than their optimal speed. According to the World Resources Institute, if every industrial motor in the United States were equipped with off-the-shelf speed-control technology, our total electricity consumption would fall by 7 percent.

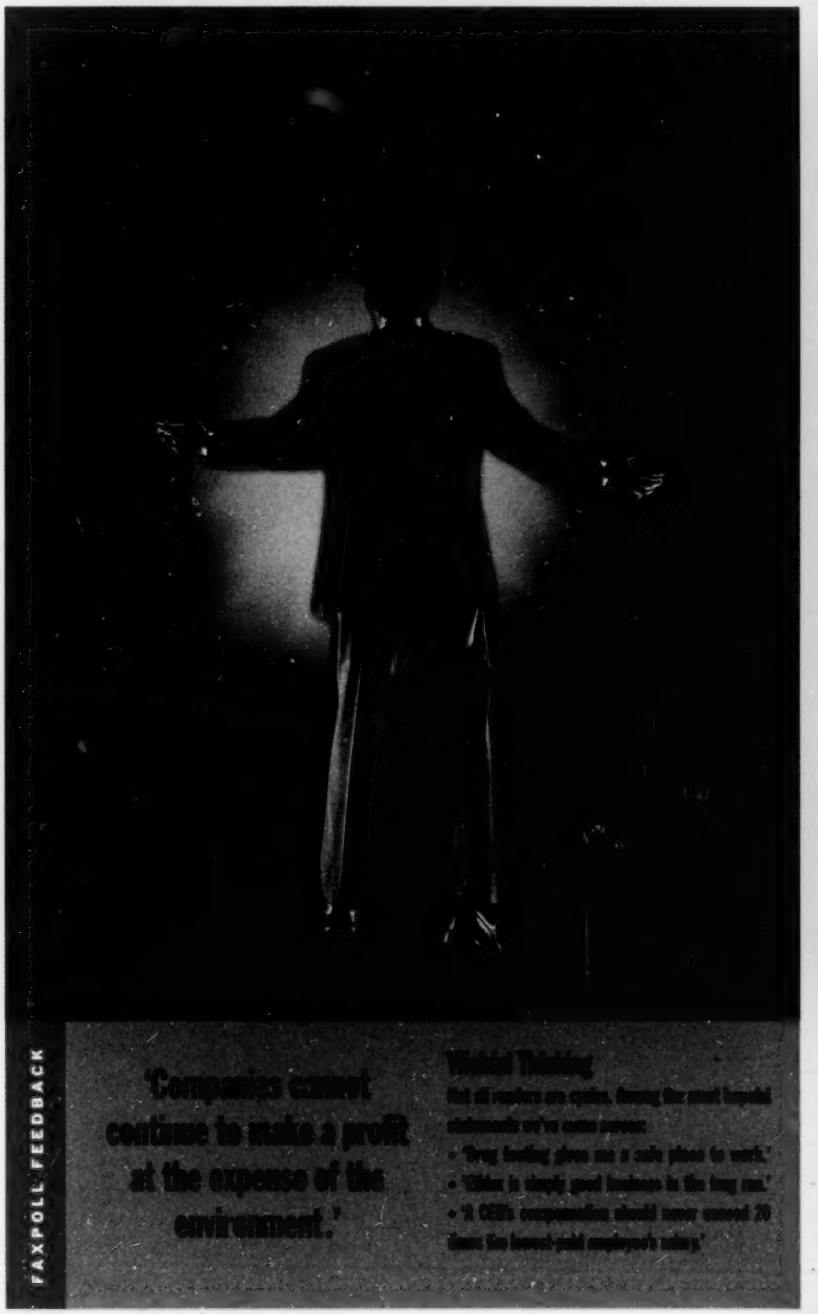
Americans (and therefore the craven politicians they elect) are less and less keen on the degradation that comes with fossil-fuel intoxication: acid rain, smog, offshore drilling. And in an era when revenues must be raised, it is only a matter of years, and probably not very many, before stiff taxes are placed on fossil fuels of every kind in order to slow their consumption. Some European nations have already begun unilateral cutbacks; their companies will undoubtedly become world leaders in the next stages of conservation technology and energy supply. But any policy designed to wean your company off cheap energy will pay dividends soon.

And there are other benefits for the enlightened businessmen, as well as other pitfalls for the troglodytes who think it's all a passing fad. The green consumer movement, for instance, is still in its infancy. So it's early enough to begin an earnest dialogue and see tangible results. For a few months companies could fool shoppers with ersatz products—"biodegradable" garbage bags that didn't, and so on—but the grace period is over. Consumers are gaining steadily in knowledge and insight. Soon it will be not just the products that buyers scrutinize but the containers they come in and the corporate policies that produce them. "Dolphin-safe" tuna and "rain-forest friendly" beef are harbingers of what's ahead, especially for environmental consumers with high incomes.

One final point: More often that not, you will learn about your company's environmental record from people who seem like your enemies. But it's probably smarter to think of them as antibodies, pointing out the infections in your system. Exxon executives wish they had listened and put double hulls on their tankers before coating Prince William Sound.

Listen to the environmentalists—even the loud, radical, unreasonable ones. It's true they do not always understand the "realities" of business, the "immutable laws" of economics. But those realities, those immutable laws, have held sway for only a few hundred years, and only because they have not run into other realities. New realities—the reality of coal smoke's acid freight, of the ozone layer's fragility—are suddenly asserting themselves, and the environmentalists are the ones who know enough to sound the warning. What they have to say may not be comforting, but no one ever succeeded in business by listening to just the good news.

Bill McKibben is the author of The End of Nature, *which was just published in paperback by Anchor Books.*



PHOTOGRAPH BY MICHAEL LLEWELLYN

HEALTH CARE: Business forgets it created the mess. Now it must own up to its mistakes and help find a cure.

By Uwe Reinhardt

IT'S LIKE STARING INTO THE ABYSS: NOTHING ELSE FILLS executives with so much dread and powerlessness.

I'm referring to the sickening spiral of health-care costs. This year, national expenditures will reach about $650 billion—11.1 percent of our GNP—up from $250 billion in 1980. Corporate America will pick up about a third of that colossal tab, the rest paid by government (42 percent) and patients out of pocket (22 percent).

Who's to blame for the uncontrollable costs? Many point the finger at physicians, hospitals, insurers, and malpractice lawyers. Then there's the government. It's to blame because it has created an entitlements mentality among the aged and the poor and now is unwilling to pay the price for that policy, right?

Wrong. Part of the blame must be laid at the feet of corporate executives, for they are the chief architects of the health-care systems that beget unmanageable costs.

Sound farfetched? The private, job-tied, employer-paid health insurance that remains the cornerstone of America's health system was not put there by our government. It was created by business during World War II to evade government-imposed limits on wages. After the war, this insurance system was made ever more generous in an annual pas de deux between corporate and labor leaders. Both fought for tax preferences granted this new form of compensation, as did an obliging health-insurance industry. But worst of all, business and labor leaders nourished among employees a now deeply entrenched sense of entitlement that has no counterpart among Medicare and Medicaid recipients nor, indeed, anywhere else in the world.

Medicare is actually a fairly lean insurance program, leaving the aged to cover fully one-third of their health spending. Less than half of the officially poor are enrolled in Medicaid, and they certainly do not expect free choice among providers.

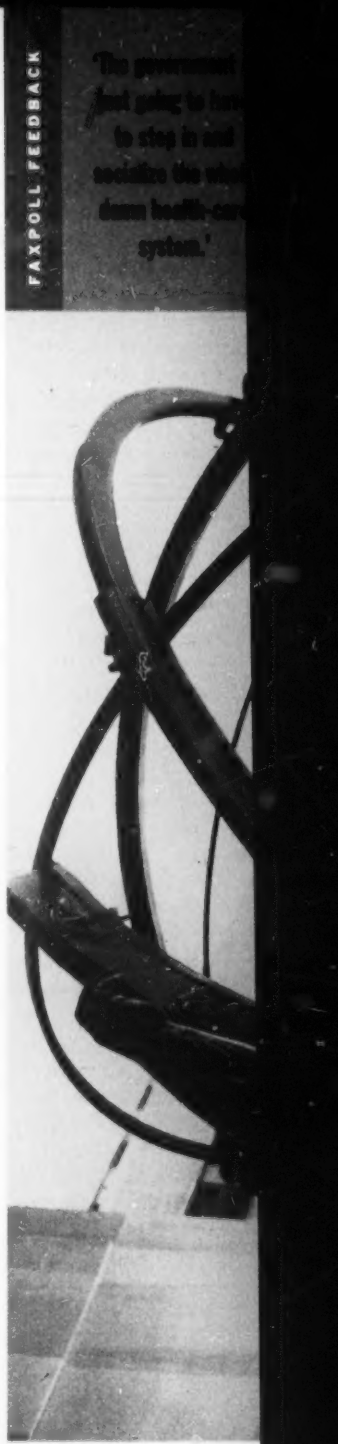
By the early 1980s, American workers were taking for granted such entitlements as full first-dollar coverage for instant access to whatever doctor and hospital and whatever high-cost, high-tech medicine an employee might choose, with little or no control over fees and very little cost sharing on the part of employees. Don't blame the government for kindling these expensive tastes and expectations. Blame those who were present at the creation: America's business and labor leaders.

Granted, many executives have tried to stuff back into the bottle the entitlements genie they had previously unleashed. Witness their attempts to increase deductibles, make employees share in health-insurance premiums, and limit the choice of providers through health maintenance organizations and preferred provider organizations. But most of these cost-containment measures have failed for two reasons.

First, the efforts to retrench were timid and took place in a tightening labor market. Second is a policy based on the misapprehension that health care is a free market and that you can control costs by letting the forces of supply and demand balance each other. But consider how ridiculous this assumption is: If a free market really existed, corporate America (the demand side) could effectively resist cost increases from providers (the supply side). Moreover, in any given year, over 70 percent of all health-care expenses come from only 10 percent of the population. These people and their kin are likely to be much too sick and worried to exercise any control over doctors and hospitals.

If American business is serious about controlling costs, it must help change the health-care system from one that is primarily supply-driven to one in which the demand side has more effective control over the range of services delivered to patients and the price of those services.

How? Most industrialized democracies acquired added market power on the demand side through national health insurance. In these systems, either the government or tightly regulated associations of private insurance carriers negotiate with associations of doctors and hospitals on the prices for services. In Canada, the government of each province acts as the third-party payer. In West Germany, numerous privately managed funds join together to negotiate with doctors and hospitals to establish an all-payer system—in which all employers in a particular market area pay providers the same fees for the same procedures.



It's unlikely that the United States will soon introduce a national health-insurance system of the Canadian variety. Unlike Canada, we have a political process that doesn't permit the ruling party to ram through legislation virtually unmodified. And it's doubtful that this country would permit some $400 billion in additional funds to flow through the books of a public sector for whom the American people have such low respect.

An alternative might be to combine features of the West German approach to price determination with the uniquely American concept of managed care—controls on utilization based on

BEST AVAILABLE COPY

Answering the Call

Most of you shrugged at our Fall 91 theme. But one respondent took the subject seriously, suggesting: 'Start with your own family. Turn off the TV, and let the kids see you reading for a change. Get on the textbook committee of your local school, and resist all efforts to modernize the subject matter.'

'If middle managers can shoulder the responsibility and be successful, they should be able to share in the spoils of business.'

careful clinical research on the effectiveness of medical procedures. A major clinical-research effort of this nature has recently been launched by the U.S. Congress. Corporate America could use its political clout to help move our fragmented private-insurance system toward an all-payer approach resembling West Germany's.

But political activism by corporate America may not even be necessary. In all likelihood, our health system will lumber toward this kind of solution in what might be called a "health policy keister-backward," with the government acting as a stern concertmaster and executives mainly as bewildered bystanders. Let me paint a probable scenario for the 1990s.

Besieged by taxpayers and a list of long-neglected priorities, including deficit reduction and repairs to the nation's rotting infrastructure, the government will continue to shift health-care costs to the private sector. America's corporate elite will continue to reel and use whatever muscle it has to pass along costs to the smallest and weakest segment of the private sector—the entrepreneur on Main Street.

Eventually that pin-the-tail-on-the-donkey game will trigger the predictable reaction among entrepreneurs. Saddled with premium increases that have recently hovered between 20 and 30 percent a year, they will likely cancel whatever health-insurance they now offer their employees and thereby foist a troubling dilemma on the government: Either raise taxes to fold the uninsured into an expanded Medicaid program or mandate that all employers in America provide their employees with health insurance.

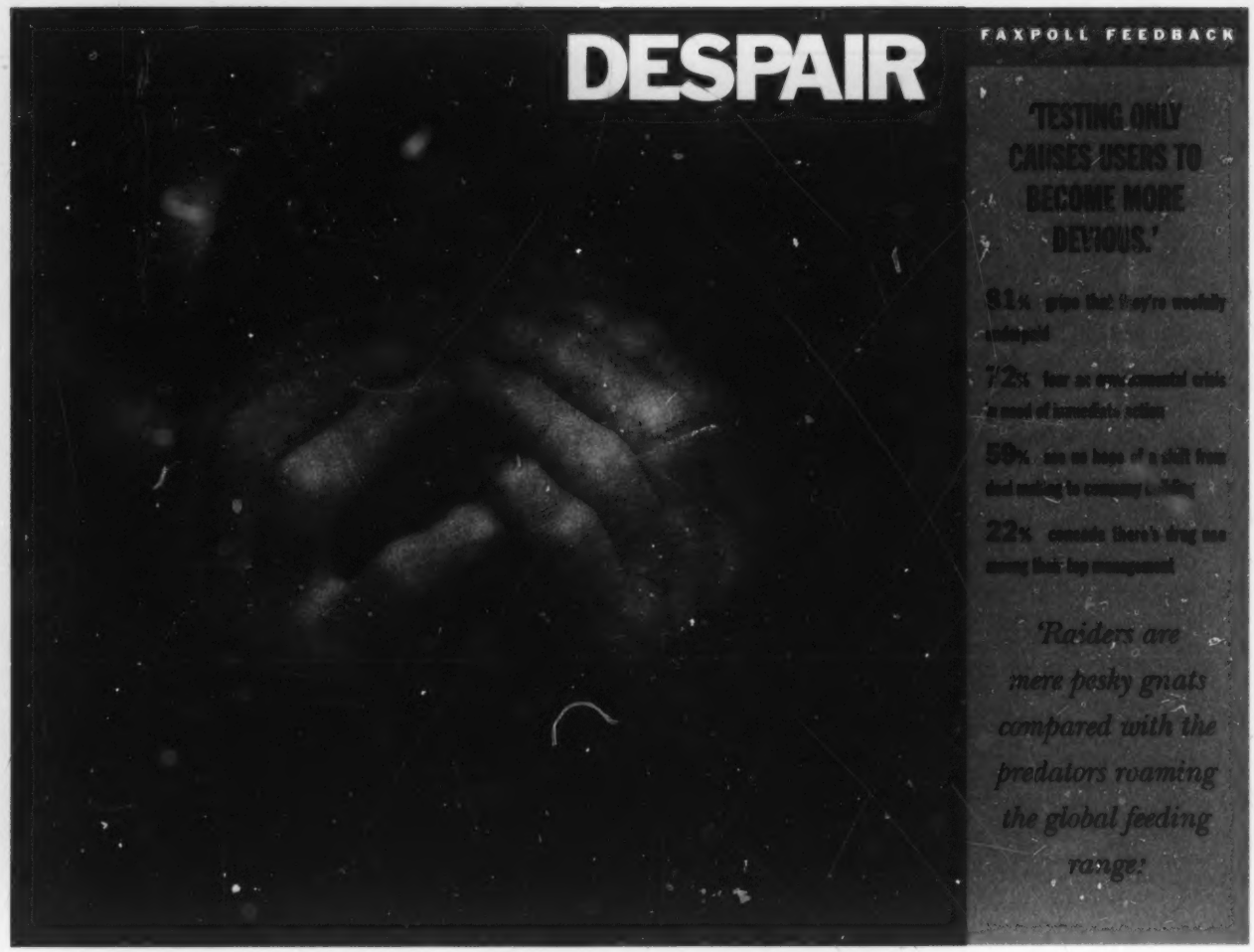
My bet is on this last strategy. But if entrepreneurs are ordered to provide health insurance, they will undoubtedly insist on substantial added regulation of the private health-insurance industry into whose arms they will be driven.

Small business will demand an all-payer system, much like West Germany's, that will be negotiated between regional associations of payers and counterpart groups of providers. It will be a novel experience for Americans, but one for which there exists a rich and long experience in all other industrialized countries. Add to this the nation's further development of managed care, and you arrive in rough-and-ready fashion at a viable American alternative to the Canadian approach.

Sadly, none of these developments will come about very soon—or by virtue of strategic public policy. The approach will be more of a tortuous lurching toward the only avenue eventually left in sight. Ironically, one of the major stumbling blocks in this necessary trek will be America's corporate elite as it clings to the mistaken notion that health care is just another private consumption good best left to traditional market forces. Until these executives learn otherwise—as they invariably will—our health system will be in turmoil because of a problem that is largely of business's own making.

Uwe E. Reinhardt is James Madison Professor of Political Economy at Princeton University.

PHOTOGRAPH BY PATTY MCDONOUGH


DESPAIR
FAXPOLL FEEDBACK
'TESTING ONLY CAUSES USERS TO BECOME MORE DEVIOUS.'
31% gripe that they're woefully underpaid
72% fear an environmental crisis is need of immediate action
58% are in hope of a shift from deal making to company building
22% concede there's drug use among their top management
'Raiders are mere pesky gnats compared with the predators roaming the global feeding range.'

DRUGS: No, this boss insists, you don't have to test employees to keep the workplace free of drug abusers.

Bank of America is one of the big-name holdouts against drug testing. John Cammidge, vice president and director of employee relations at the San Francisco-based bank, explains:

We do not favor random testing, but we could foresee situations where preemployment testing and testing in certain situations would be the right thing to do. We are comfortable with our substance-abuse policy. But we are not currently comfortable with the idea of taking the next 10 employees and arbitrarily saying, Hey, we're going to test you.

Legal considerations have an important influence on our drug policy. It's reasonably safe to assume that we could test prospective employees for drugs because of recent decisions taken by the courts in California. These support preemployment testing that does not unreasonably intrude into individual privacy. But the issue of random testing of employees has not been fully dealt with by the California courts. Also, San Francisco has an ordinance that allows drug testing of people already on the payroll only where there is good cause.

The marketplace in California is another consideration. Testing is not currently the norm in the California banking industry, and so there is no market pressure on us to test.

We also have a clear policy on alcohol and drugs in the workplace. Employees are prohibited from using, possessing, or being under the influence of drugs or alcohol on the job. If they violate the policy, we may take disciplinary action—including termination. We also reserve the right to search and use surveillance if we suspect employees are carrying drugs or for other reasons. There have been very few searches. We expect managers to manage to the policy and to get employees who need help into our recovery programs.

Nevertheless, our policy is under continuous review. If testing became more commonplace among the other banks, if business or safety factors changed, or if the California legal situation changed, we would seriously reconsider our policy.

PHOTOGRAPH BY PAUL ELLEDGE

YES TO DRUG TESTS: Wimps won't win the war against substance use on the job. Companies that resist compulsory testing will end up as the employers of last resort. By Peter B. Bensinger

THIS IS HOW FAR WE HAVE COME: ANHEUSER-BUSCH no longer serves beer during workers' breaks at its breweries. The company and its unions decided four years ago that a nip in the afternoon might tend to make workers ignore safety rules. Instead, Anheuser-Busch now gives each worker two cases of beer each month—to be drunk at home. Niagara Mohawk Power Corporation has agreements with its unions prohibiting the drinking of alcoholic beverages at mealtimes or anytime during the workday, even off company property.

Other companies have not reacted in so dramatic a fashion, but most of the nation's biggest industrial concerns have joined the crusade to clear alcohol and illegal drugs out of the workplace. More than 90 percent of America's largest employers now have drug programs of some type, and more than 60 percent of them test their employees for drug use. As the drug menace seems to worsen daily, businesses obviously are becoming more aware of the impact it has on everything from plant safety to worker productivity to medical benefits.

This is how far we will go: States will deny workmen's-compensation claims for employees hurt on the job because they were drinking or taking drugs. Drug abusers may also lose their unemployment benefits.

But this is how far we haven't come: Major banks such as Bank of America in San Francisco refuse to adopt preemployment drug-testing programs. Hotel chains such as Hilton, Hyatt, and Marriott remain uncommitted, as does Arthur Andersen, one of the nation's leading accounting firms. The AFL-CIO supports drug-abuse programs generally but still resists random testing of workers. Notables such as economist Milton Friedman and former Secretary of State George Shultz even advocate the legalization of drugs. Obviously neither Friedman nor Shultz has tried to run an assembly line manned by coke heads.

It's hard to fathom why so many companies still drag their feet. Banks certainly are aware of the menace: The government is reminding them constantly that the large cash deposits coming their way are likely to be drug money. But the institutions remain skeptical that drug tests are needed. Hotel companies are labor-intensive and may worry about the cost involved in testing all their workers. They should, however, consider the long-term cost-effectiveness of rooting out drug abusers.

Unfortunately, business has always fought the drug war from far behind the front lines. Washington's policies cannot be described as preemptive, but two agencies were far ahead of the corporate community in acknowledging the danger of drugs in the workplace.

I estimate that in 1981 less than 20 percent of major employers in this country had clear policies on illegal drugs and alcohol. Top management was basically unaware and unconcerned. Then, in 1982, the National Transportation Safety Board issued a report documenting high levels of drug and alcohol use by railroad employees who had been involved in accidents. It asked the Federal Railway Administration to issue tougher regulations. The same year, the Nuclear Regulatory Commission proposed a rule that would require all utilities running nuclear power plants to prove that their work forces were drug free. Today drug testing is a fact of life for anyone applying for a job in the utility industry. The Department of Transportation issued drug and alcohol regulations in 1988, in an attempt to reduce train, plane, and bus crashes. That year, Congress passed the Drug-Free Workplace Act, requiring any company that does $25,000 in business with the government to show that it has a policy for keeping drugs off the premises. This law is now being replicated at the state level.

HOW ELSE DO COMPANIES MANAGE TO DELUDE THEMSELVES? BY IMAGINING THAT AN EMPLOYEE'S FIRST LOYALTY IS TO HIS FIRM. **SEE PAGE 85.**

The courts have supported these efforts, ruling that it is reasonable for companies to reject employees who use drugs, and have generally upheld preemployment testing. The Supreme Court has ruled that the Department of Transportation can require postaccident drug testing of railroad employees in safety-sensitive jobs even though they are not specifically suspected of drug use. These rulings reflect the severity of the drug problem and the importance of a drug-free workplace in safety-sensitive situations.

With the government, business, and the law clamping down on drug abuse, it is strange that some prominent citizens want to solve the problem by legalizing drugs. Legalization would only lead to greater drug use in the workplace and everywhere else. If we legalized the sale of drugs to adults, two things would happen. Drug users wouldn't be satisfied with the low-potency drugs the government would allow but would continue to seek high-kick merchandise from illegal dealers. At the same time, the drug gangs would target more of their selling efforts toward teenagers and children.

Proponents of legal drugs say their proposal would reduce crime. It is true that some people steal to get drug money. But even well-heeled addicts commit more crimes; cocaine and amphetamines, especially, make people more aggressive and therefore more prone to crime and to causing major accidents.

Historians tell us drug abuse is cyclical and that we may be at the beginning of a downward wave of drug availability in America. But private business cannot count on that yet. Even if drug use in the office and factory declines here, it will increase overseas. Companies in Europe and Japan—including, of course, American operations in those areas—will soon be grappling with the same problem that so bedevils managers in the United States. Greater affluence overseas will give people enough money to catch what used to be considered an "American disease." Imports of cocaine into Spain, which has decriminalized marijuana, are now at the level they were in the U.S. 10 years ago and exceed cocaine imports for all the rest of Western Europe. Drug cartels are already establishing other markets where law-enforcement agencies have not yet geared up to combat drugs on a large scale.

The spread of drugs overseas will not discourage American companies from taking action, however. In the years ahead, there will be even less tolerance of drugs in the workplace here and abroad. Some headlines you will be reading:

• Unions will accept broadened testing of workers. (They now approve of testing as a condition of employment or for cause.) A philosophic stand against random testing will give way to an economic principle. Union members do not want 90 percent of their medical benefits chewed up by the 5 percent who are drug abusers.

• Executives will drink less at lunch, and more company picnics and retirement dinners will be soft drinks only.

• States will become still less tolerant of drunk drivers. The alcohol tolerance standard will be reduced from 0.1 to 0.04, a level already established by the Department of Transportation.

• Companies will also adopt lower thresholds for drug tests for marijuana and cocaine, making it easier to spot "casual users."

• Companies will continue to use undercover investigations to document cases against abusers—and to document the need for companywide testing.

Yet, there will be corporations that will continue to resist strong antidrug and alcohol policies and drug testing. They will become the employers of last resort for the drug users, and their own safety programs, productivity, and morale will suffer immeasurably.

Peter B. Bensinger is president of Bensinger, DuPont & Associates, a consulting firm that deals with drug abuse in the workplace.

FAXPOLL FEEDBACK
'SEND THE RIGHT MESSAGE: TEST EVERYONE FROM THE CEO DOWN TO THE JANITOR.'
'Lying is the only way to beat the other bastards.'

PHOTOGRAPH BY DON GLENTZER

EDUCATION: You know the type. Not dumb, but certainly no self-starter. Hard work? Team spirit? This employee's never heard of them. There's only one way to motivate underachievers: Give them a share of the American dream. By Ben Stein

IT'S A PROBLEM BY NOW BITTERLY familiar to the American employer: a certain kind of employee who is not necessarily stupid or devoid of ability but so unmotivated, so thoroughly alienated from the notion of production as to constitute a major daily migraine.

Undereducation is part of the issue. This worker needs to be trained at the most basic level. Yet, of course, he resists learning. He not only lacks basic skills at his job but is often so out of the loop of human conduct that he alienates customers and fellow workers, distracts fellow employees, and consumes far more of his employer's time and money than he replaces by his work. This employee epitomizes "antiproductivity," the creation of negative utility by someone who is actually consuming the income of your company. In sum, he is a guy you end up paying to wreck your life and the health of your business.

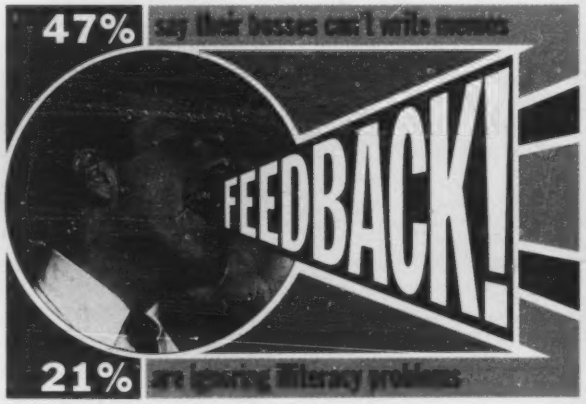
This kind of employee is not only a problem to himself and his employer; he is a national menace too. In an America besieged by desperate labor shortages in many areas, workers who have the raw material to do worthwhile, productive labor but lack the right attitude to get it done are a badly wasted resource.

The solution, you might imagine, would require some kind of national plan for training or motivation. It doesn't. Moreover, a wealth of data show that in the last 30 years, large-scale training and retraining programs have mostly been failures—except to the training schools that pocket taxpayer loot for rubber-stamping diplomas for people who more often than not continue to be problems.

Don't waste your money on education. Instead, try offering these underachievers the chance to earn a piece of the American dream.

Sound ridiculous? Then consider the case of a young woman who, until recently, was unmotivatable. Turned around by her work environment, this employee now seeks out knowledge to do her job better, adding to her productivity and human capital.

Meet Elspeth Holt, 28, from a middle-class family in Los Angeles. A college dropout after two years, she spent the next six years bouncing from job to job, rarely staying at any position for more than a few months. As a secretary, as a receptionist, as a salesgirl at Ann Taylor, she would start each job with enthusiasm. But within days, she would pick fights with the people around her. She would find the work boring. She would complain about the pay and the hours. Then she would start leaving work early and taking long periods of sick leave. Invariably, she would either quit or be fired, often after alienating clients or other people at the firm.



Dissatisfaction with her work, with herself, with every major aspect of her life, turned her into a highly resistant, sullen member of the labor force.

Ironically, she was unquestionably intelligent, liked to learn, and had high ambitions. A number of invisible iron curtains seemed to separate her goals from what she could get out of her jobs. The keen frustration of butting against those barriers destroyed her as a worker and cost her employers time and money.

Salvation came in the form of an offer from a completely different kind of job. Through a distant family member who had been primed by Elspeth's mother—who was sick of supporting her emotionally and financially—Elspeth was hired as a broker of clerical and secretarial personnel at a headhunter specializing in pink-collar labor.

Her job paid practically no salary. Her take would be based almost entirely on commissions either for workers she placed or for employers she lined up as clients who then hired her firm's placements. She would have to make a certain number of placements each month or face probation and, eventually, termination.

But if she succeeded and placed a number of applicants, her pay would be far higher than ever before. Compensation wouldn't go up in $2 increments or yearly bumps of 8 percent. She had a shot at making $50,000 her first year—and more than double that amount within two years if she built an ever-growing base of clients.

Her work environment also changed

dramatically. No longer employed in an office or on a store floor where many low-wage people served a few high-wage earners, Elspeth now worked in a room with peers. Every salesperson in the placement firm got the same percentage commission and, by dint of hard work and luck, could make as much as anybody in the room—or more. Awards went out to the person who brought in the most business each week. Put another way, the prize of esteem went to the employee who added the most value for the employer.

There has been an astonishing change in the quality of Elspeth's work, as well as in her attitude about working.

A WOMAN WHO COULD RARELY drag herself to work before 10 a.m. now usually shows up before 8. Once she lived to take long expense-account lunches at elegant restaurants with her friends; these days she packs a bag lunch and eats alone at her desk. Elspeth has wangled a set of keys to the office building so that she can stay as late as she wants. She is often on the phone during dinner and as late as midnight, advising applicants how to dress and what to say at job interviews.

Elspeth, who often did not even know what business her employers were in, now spends weekends studying the annual reports of client employers and reading business journals about areas of expected growth in Los Angeles to identify new clients. This same woman, who once could not be bothered to learn how to use a word processor, now makes it a point to acquire the basics of every software program her applicants are expected to use on the job.

TODAY'S LESSON: THERE'S NOTHING LIKE THE WHIFF OF MONEY TO WAKE UP THE SLEEPIEST AND LEAST MOTIVATED EMPLOYEE.

Most revealing of all, a woman who thought she lived at the margins of the system now feels entirely a part of it, committed to her job, to her employer, to the society in general. This, you might say, is a miracle in action for her and her employer. She earned over $50,000 in her first year. Now in her second year, she is frequently the leading salesperson of the month and gives seminars to her clients about how to keep and motivate their new workers. She has traded up from a Hyundai to a Cabriolet, a perfect physical correlative for her jump in self-esteem and morale, as well as income and productivity.

Of course, there are special circumstances in Elspeth's job, as in every position. But the principles of motivation are universal.

First and most obvious, Elspeth saw for the first time a direct link between her new work and her income. It is a connection made easily by the cabdriver, the street vendor, and the solo practitioner lawyer, but a point often lost to the employee in a large corporation. Once Elspeth realized that her performance directly and remorselessly governed her pay, she—like any sane person—acted on it.

Second, she recognized an opportunity for a noticeably better life-style than she was accustomed to. The worker born into a family of Oldsmobiles will not be greatly moved by the chance to own a Buick, much less a Chevrolet. But to have a shot at a BMW... there is motivation indeed.

Third, Elspeth was placed in a work milieu in which production was the norm. Just as alcoholics and drug addicts can be moved to sobriety by being around people who see sobriety as the norm, so Elspeth was moved to imitate the norms around her—hard work, results, and a desire to win.

Fourth, her job reinforced her self-esteem. Talking on the phone and manipulating people both played to her skills; her abilities and duties meshed and built upon one another. In turn, she derived a steadily growing sense of confidence and pride in her work, which spiraled into the kind of deep confidence that moves an employee to prove to herself how good she is on a continuing basis.

Fifth, Elspeth at last found a place where her horizons were unlimited. As a secretary at an aviation leasing company, her natural boundary was secretary. As a receptionist at an ad agency, she could not hope to rise above receptionist. But at the placement firm, her normal run of work and success would take her as high as the firm would allow—and that was high indeed in terms of remuneration, responsibility, and prestige. This gave her a feeling that it was highly worthwhile to make friends and to develop skills and contacts. The fact that she could profit handsomely by making it work this time, that gradual increments in her human capital would pay off steadily and, well, make her view the placement agency as a lifetime gig.

Finally, Elspeth responded well to the idealistic content of her job. After all, she was helping unemployed or unhappily employed people find good jobs. This was a fact she corroborated time and again when she did follow-up work on her applicants. The conviction that she was improving their lives spurred her to work even harder for herself.

Obviously, not every employer can duplicate all aspects of Elspeth's experience. It would be hard for a factory dependent on very low wage labor, for example, to consider paying standout performers six-figure salaries. But such plants could certainly reward the best

PHOTOGRAPH BY MANNY MILLAN/SPORTS ILLUSTRATED

FAXPOLL FEEDBACK

'DAMN RIGHT WE'RE SURROUNDED BY IDIOTS—MOST OF THEM ARE BOSSES.'

A Not-So-Civil War

91% charge that American CEOs make too much money

74% complain women shouldn't have to behave like men to get ahead

82% gripe that we're letting Japan take control of our economy

'Shoot every drop-out in sight' is how one reader would solve illiteracy at the workplace.

workers by offering them more generous compensation than poor performers. Even unionized shops can almost always make incentive payments.

True, it is not easy in larger, more segmented workplaces to offer that seamless possibility of advancement to the high levels of pay that Elspeth has. But most employers can still ease the borders among different levels of work for diligent employees. Law firms can offer incentives for secretaries to study law at night and eventually practice. Why can't manufacturing companies do the same?

The point is not to duplicate what Elspeth does at her placement firm but to grasp what motivated her to become such a hard and productive worker. It is an ancient lesson drawn from the history of American immigrants. They knew that they had to work or they would go hungry, since there was no welfare. They saw that the prevailing ethos of America was work and more work. They saw that in America, unlike in the Old World, there were no limits to where they could go. They saw that America, to paraphrase de Tocqueville, was great precisely because it was good, a place where idealism meant something, and this gave them courage as well.

Americans became the most prosperous people on earth mostly because of the well-organized, self-motivated work of her immigrants. Over the generations, that spirit was lost in accustomed affluence and a confused notion about what work is supposed to be.

But Elspeth rediscovered what her ancestors knew so many years ago, what every undocumentado crossing from Mexico and every Thai coming through customs at LAX knows. To the extent that this lesson can be humanely taught to native-born Americans, employers may yet be able to instill pride and good work in them, and the unmotivatable employee may one day become extinct.

Ben Stein, an economist and lawyer, writes frequently for BUSINESS MONTH.

POWER: Our hero became CEO at 39. It was good. Then everyone around him became assertive. Now he can't look *his* hero in the eye. By Roy Blount Jr.

THE MAN IN THE NEXT SEAT had eyes the color of money. He looked at me as if he figured I'd been slipped into first class because I had something on the pilot. (Actually, the plane to where I'd been going had been overbooked, and the woman at the gate had asked me whether I'd be willing to fly somewhere else instead, and since I'd recently taken a seminar to improve my negotiating skills, I'd said, Well, okay, but only if she'd upgrade me.) But when I told him my first name, he regarded me differently. And by the time I realized that he thought I'd said I represented an outfit called ROI (an acronym for return on investment), he had finished four martinis and his story.

In high school, Anson Skedmark (for that was his name) was the CEO of his senior class. He'd been elected president, but his first official act was to change the name of the office. He loved the ring of it, CEO. He was determined to be one in business before he was 40.

His father was a curio salesman, door-to-door; his mother, a wet nurse. No one in his family had ever had a desk. In the '60s, when others were running naked with flowers in their hair (not only members of his generation but also his father, who was in many ways not the role model he might have been), Skedmark was wearing a suit. Reading *Winning Through Intimidation.* And learning to smoke large cigars.

It paid off. Three days after he turned 39, he was in fact named chief executive officer of a small marketing enhancement design consulting firm. In three years under Skedmark, its revenues went from $39,500 to $268 million. His clients included COMSAT, the entire implement industry, and the nation of Bolivia. His nine executive assistants stayed on duty at various posts around the clock, in shifts (one of them lived in a Lincoln in Skedmark's driveway), in case he woke up (he slept only four hours a night anyway) feeling like barking instructions to someone who earned in the six figures. His own annual compensation was in the low eight. He married a Liechtensteiner heiress who collected art and raptors and gave him four children. He produced a ghost-written book entitled *Optimizing Excellence,* which was on the *New York Times* best-seller list for 39 weeks. At the 1988 company show, a chorus of 200 performers donned masks of his face to dance a musical tribute. And he had a helipad.

It was good.

But then things began to change. First his banker, T. Charles Divvy, who had made some largehearted real estate loans around the great Southwest, jumped out a window. A limousine window, at a speed of only about 30 miles an hour; but still, in traffic. Divvy was changed.

"The man had vision!" Skedmark exclaimed. "I'd get him on the horn and say, 'Cholly, I need an injection of cash,' and he could see collateral in . . . in a grain of sand! Now he's trying to get me to join Leverageaholics Anonymous!" Skedmark's debt-to-capital ratio, it turned out, was 174 percent, which I guess (I don't know anything about finance myself) is pretty impressive, but only as long as everyone remains largehearted.

Skedmark's board did not. "I got them appointed!" Skedmark exclaimed. "I worked with them! Every three months I called in a consultant who concluded that they were underpaid, and I did something about it, and every six months I threw in a new table. Bigger. Nicer wood. But that's not enough for them anymore. Now they all want gavels. Well, I'm not giving them gavels!"

Instead he's accepted cutbacks. Had to. His parent firm has been merged with a larger firm that is fighting a hostile takeover effort mounted by a company that Skedmark had thought he owned. It's painful belt-tightening time. Not only has Skedmark had to stop stabling his horse at the office but he's down to three executive assistants, the one in his driveway is down to a Mercury, and none of them makes more than the Vice President of the United States.

And they have attended a seminar in which they learned that yes-men aren't really good for their boss—whatever he may say. "So they've become no-men!" Skedmark cried. "I *like* yes-men."

Revenues for 1990 were projected at $680,000—well up from where they were when Skedmark took over, but well down from where they were at his peak. Under pressure from his controller, Skedmark accepted the Shiite religion as a client. His own creative department picketed corporate headquarters, and one of his no-men has been leaking confidential information to Salman Rushdie.

His chief operating officer brought in a humor consultant, an edgy Canadian who had given up appearing in comedy clubs because heckling made his eyes water uncontrollably and who recommended jokes for relieving intraoffice stress. When Skedmark asked the COO why the table of organization chart was hanging upside down and several rolls of toilet paper had come flying in through the boardroom window, the COO consulted some notes and said, "You know what you call a fly when you pull his wings off?"

"What!?" Skedmark cried.

"A walk."

Clients who feel that their marketing designs have not in fact been enhanced have found that they can sue. Skedmark has had to take $42 million worth of consultancy liability insurance.

IF YOU THINK IT'S GETTING LONELY AT THE TOP, YOU'RE RIGHT. THE MUCKAMUCKS ARE FALLING FASTER THAN REENTRY CAPSULES. DOUBT IT? SEE PAGE 81.

For some reason that he can't quite get straight, Skedmark must meet three times a week with representatives of the Serbo-Croatian community to hear their grievances.

People threw floppy disks at him recently at a workstation closing.

Certain public-sector commitments oblige him to supply 15 buses and as many Port-a-Potties for a Free Neil Bush rally next month in Washington.

He has long since given up large cigars (hardly anyone will tolerate being in the same room with them anymore, even other CEOs), cold turkey. If he'd sought help, the market would have found out about his addiction and his company's stock would have plunged.

"I'm a CEO," he said. "An *American* CEO. And what does it add up to? I never have time anymore to read Clausewitz. I can't remember the last time I had a free moment to pop *Patton* into the VCR. In fact ... the last time I looked at George C. Scott in that helmet ... I had to look away. Because I felt that if he knew what I put up with, he would look away from me. There. That's the truth of it. Old MacDonald had a farm. C-eye, E-eye, O."

"Oh, come on," I said. "After all, work isn't everything. Your family life must be a great consolation."

He gave me such a look.

"My wife," he said, "got tired of being traditional and started her own business. Now she wants us to move to Seattle. Because *she* can run *her* business from a houseboat, which she thinks will be good for the children. She studied with a Sufi holy man who convinced her that when you practice 'not being,' everything will fall into place. *'Our* Sufi told you that?' I asked her. She laughed. She said the whole notion of 'our Sufi' or anybody's Sufi was antithetical to Sufism. She went to a competitor's Sufi. She has written a book entitled *Being a CEO in Your Spare Time*."

"Has it made the best-seller list?"

"Don't you read? It knocked my book out of first place! And I find out the bi—"

He caught himself and glanced guiltily at the flight attendant. "I just had to take an encounter group with all my female employees," he whispered to me. "Every damn ... blessed one of them. Yattata-yattata-yat ... Expressing their feelings.

"And I find out the woman ..." This time he glared at the flight attendant, but sulkily, "used my writer."

"Gosh," I said. "Well, hey. You're in the fast lane. There are bound to be peaks and valleys. Things can't get much worse than this."

"Oh no?" he said. "Just before I boarded this flight, I learned two things.

"One: My father, who was certified insane in 1979 and who cost me half a million dollars to get decertified and set up in some sort of research in 'cyberspace' to get him off my back—my father, who is 64 years old and wears dreadlocks—has developed a 'virtual reality' program that enables any Tom, Dick, and Harry to put on a vest wired to a computer that enables him to feel like a CEO!

"Two: My lawyer makes more than I do."

"Oof," I said. (Though to my ears, frankly, that last bit sounded like part of the human condition.) "That *is* hard to take. It makes you wonder, in a free country, how things could go so wrong."

"There's a flaw in the system," he said. "One deep fundamental flaw."

"What is that?" I asked.

"Insufficient CEO empowerment," he said. " 'Empowerment,' I hear from the women. 'Empowerment,' I hear from the Serbs and the Croats. 'Empowerment' I hear from OSHA. Did you know they've got OSHA cranked up again? The *Republicans!* They've got a new guideline out now—it is psychologically unhealthy to require a marketing enhancement design consulting employee to engage in company practices that do not empower the employee to enhance his or her own self-image. Empowerment, empowerment. But never empowerment for me!"

"What kind of empowerment exactly do you have in mind?" I asked.

He gave me an impatient look, as if he knew that I knew perfectly well what he had in mind, what anybody in his position would have in mind. Those eyes of his turned harder than a deep-depression dollar.

"A chief executive officer," he said, "under our present laws and system of government, is not empowered to execute anyone."

Roy Blount Jr., whose father was a CEO—of an honest savings and loan association—has just published his 10th book and first novel, First Hubby.

A FOOL'S POWER: Just look where charisma got Donald Trump today. CEOs should spend more time developing imagination and sharing the wealth.

By Abraham Zaleznik

JUST HOW IMPORTANT IS CHARACTER to success in business? Truth be told, not very important at all. Power has more to do with your potential ability to move others than with the means by which you alter their behavior.

Now, I know it *seems* as if nice guys always finish last. Just look at today's business heroes. No one of my acquaintance has ever accused Henry Kravis of being overly genial. Donald Trump seems to go out of his way to thumb his nose at commonly accepted morals and manners. As for Frank Lorenzo, it's hard to imagine his inspiring much affection from employees even in his next enterprise. "His enemies shall lick the dust," writes Al Neuharth, quoting Psalms 72:9, in *Confessions of an S.O.B.*, as if total subjugation were the goal of executive power.

How did we reach this low point, where the new cult of power has become a celebration of nastiness? It wasn't too long ago that big corporations sent their up-and-coming executives to "charm school": courses in human relations where managers learned to soften the hand of power, disguise the built-in inequalities of hierarchy, and foster participation and power sharing. The idea was that if you could make employees happy, you might improve their productivity. But corporate raiders in the 1980s effectively buried the image of the nice guy as successful CEO. Kindness became synonymous with weakness. Career-minded MBAs also helped change the American psyche, pushing the notion that to win is to be ruthless.

Nothing could be further from the truth. You can be a nice guy or an SOB and still reach the top, provided you have two things going for you: a business imagination you put to use with single-minded devotion, and comfort in gaining and using power. With these ingredients, despot and pussycat alike will enjoy success and, along the way, become charismatic in the eyes of subordinates, even rivals.

True, charismatic leaders often arouse either intense love or fear, along with certain amounts of respect and envy. But their success is really measured by the degree to which it translates into good fortune for the associates who have cast their lot with such leaders. When investors in Home Depot judge the company's founder, Bernie Marcus, are they concerned about whether he's a gentleman or a bastard? No. Despite the fact that Marcus happens to be an extremely nice guy, they are much more affected by how he has turned each hundred thousand dollars originally invested into many millions.

Wal-Mart executives and employees seldom talk about Sam Walton in terms of character analysis. They do mention his imagination and craftsmanship, which stimulates leadership by example. They talk about his keen perception of consumer buying habits and needs, his ability to lead others in delivering on the promise of value to the consumer, and his infectious enthusiasm for the work he and his associates are doing as mass retailers.

TEST YOUR OWN INSECURITY: WOULD YOU RATHER TAKE A LIMO HOME OR RIDE THE BUS WITH YOUR MAIL-ROOM CLERK?

Character, which is primarily concerned with how people regulate their relationships with others, has very little to do with the quality of leadership or power. Wilhelm Reich, who plowed some new fields in his studies of human development, likened character to a protective armor that buffers one against the painful stimuli that cause anxiety. Put less clinically, a nice guy habituates himself to being nice in order to avoid aggression from others, as well as his own tendency to be aggressive. An SOB, on the other hand, learns to be obnoxious in order to keep people at a distance, fearing closeness and the tender feelings that closeness stimulates.

A person's character is every bit as distinctive as his fingerprints and almost as difficult to change. No matter. If the armor does its job of protecting, it lowers anxiety, allowing people to feel at ease with themselves—whether they are jerks or pushovers—and to express the talent, drive, conviction, and self-confidence that are the real keys to success.

Personally, I prefer plain civility and good manners to extremes of either unctuousness or prickliness in my work associates. There's no reason that decent behavior can't go along with the pursuit of achievement.

Abraham Zaleznik is a psychoanalyst and professor emeritus of the Harvard Business School.

ETHICS: Sure, it's easy to say that you're pure, but just try teaching your employees right from wrong. By Harvey Golub

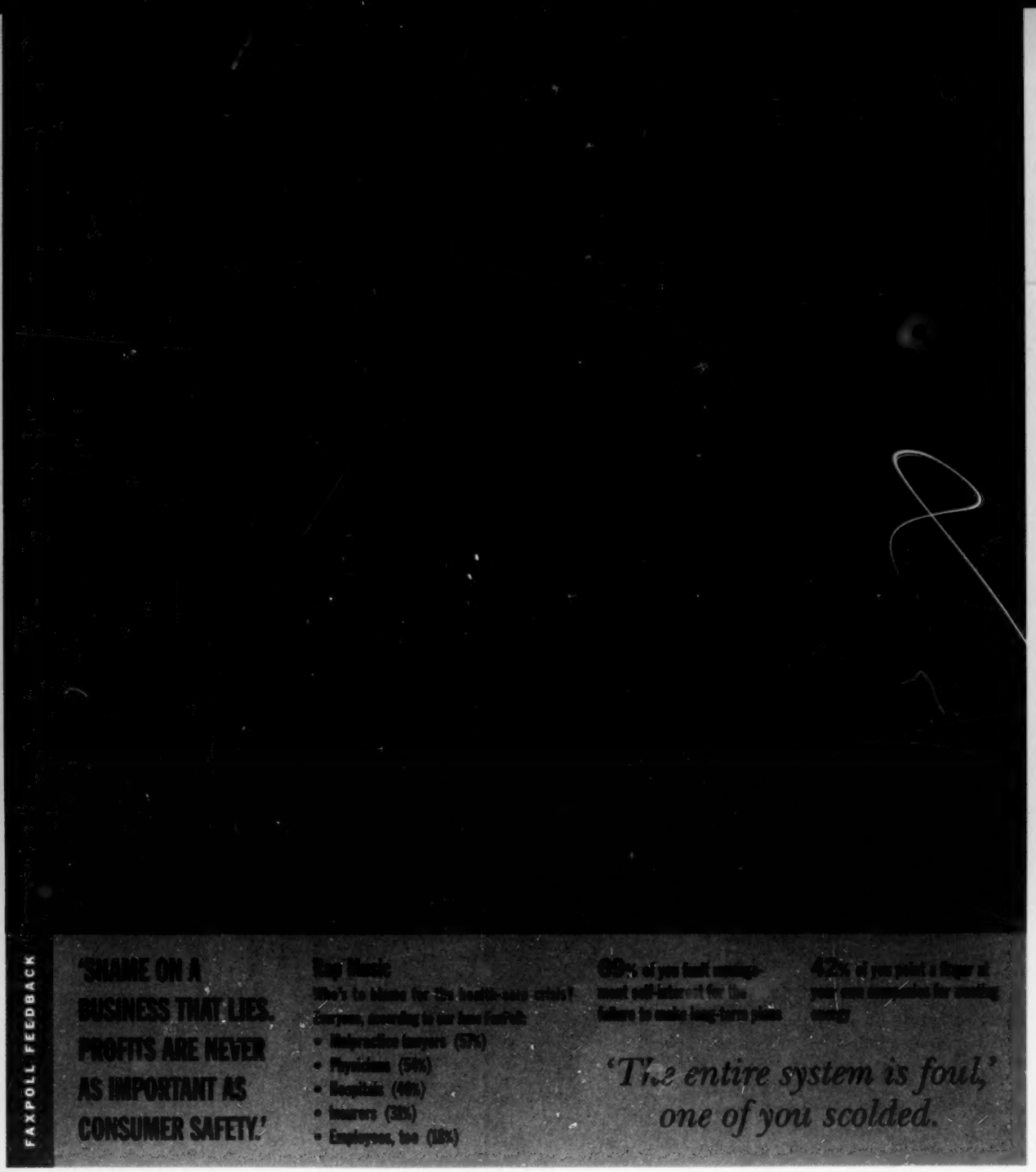
BUSINESS ETHICS: IT'S NO oxymoron but a phrase that evokes very real challenges tugging at a company every day. You can lay down the clearest guidelines and adopt the most straightforward of mission statements, and people will still make mistakes. Some will misbehave.

At IDS Financial Services, we have rigorous ethical standards that govern everything we do. And we're absolutely serious about living up to them. There is very little *gray* area: Something is either right—or wrong. And because our values are clear, we believe it's easier for our people, from the bottom to the top, to make the right decisions about how this company should operate.

Our code of ethics can be boiled down to this: Clients come first. We put their interest before our own. We have to. In a relationship built on trust, we must have our people work within an ethical framework—particularly since they operate independently.

Consider Long-Term Care, an insurance product we developed last year for senior citizens that pays nursing-home expenses. Seniors represent a large market, but there is always the risk that the client doesn't fully understand what he or she is buying. We set out to ensure that prospective clients fully understood all provisions of the policy and could easily decide whether it was appropriate to their needs. To root out any potential areas of misunderstanding, the company conducted "suitability" studies with groups of senior citizens. We asked them to suggest changes—which included a "home care" benefit as part of the policy and more cost-effective coverage for the average nursing-home stay—and implemented their recommendations.

On occasion, however, we make a seri-


FAXPOLL FEEDBACK
'SHAME ON A BUSINESS THAT LIES. PROFITS ARE NEVER AS IMPORTANT AS CONSUMER SAFETY.'
Easy Music
Who's to blame for the health-care crisis? Everyone, according to the fax fanfolk:
• Malpractice lawyers (57%)
• Physicians (54%)
• Hospitals (49%)
• Insurers (38%)
• Employees, too (18%)
69% of you fault management self-interest for the failure to make long-term plans
42% of you point a finger at your own complacency for wasting energy
'The entire system is foul,' one of you scolded.

ous mistake. An IDS financial planner recently suggested that a client sell a large portfolio of stocks to save on taxes. He encouraged the woman to discuss the matter with her tax attorney before taking action. But she never did, and the omission wasn't discovered until after the sale—which, to everyone's chagrin, generated a capital-gains tax in excess of $50,000. It was the client's ultimate responsibility to seek tax advice; technically, at least, the IDS planner hadn't done anything illegal. But he had misunderstood the tax law and failed to verify the tax issues at the point of sale, and that hurt the client. We felt obliged to get involved and are currently working out an agreement to assume the bulk of the tax liability. When we make a mistake—or fail to perform up to our standards—we try to make it right.

To ensure that things go right, we have ongoing reviews of our sales force by managers. All planners must certify they understand the behavior requirements for dealing with clients. When a major infraction occurs, we get the message out right away. The heads of our field force and compliance department put together a brief program on the problem and how it could have been prevented. It's broadcast live on our own television system and is seen by every IDS office nationwide.

Sadly, clients are sometimes hurt deliberately. During a period of several years,

PHOTOGRAPH BY CHIP SIMONS

three IDS planners in New Jersey sold shares in an unregistered investment syndicate—not associated with IDS—while they were representing IDS. They did this in direct violation of company policy; IDS was not connected to the syndicate in any way. The syndicate turned out to be a pyramid scheme. A state Bureau of Securities suit held the former planners, and not IDS, legally responsible.

Nevertheless, we felt duty-bound to pay out more than $1.2 million to clients who were under the mistaken impression they were buying IDS securities. That's no small piece of change. But we must protect our reputation and do what is right.

Clients come first. Everyone who works for us knows that's how we do business, and the people who succeed in this company all do business with that thought in mind, even when it requires making exceptions to the rule. Example: If a client redeems shares from an IDS mutual fund, he or she must reinvest it within 30 days in order to avoid the sales charge for new investments. That's the policy.

But after Hurricane Hugo, our customer-service people decided to make an exception to that policy. They worked out a process with our offices in South Carolina to allow expedited redemption of fund investments for our clients. Without having to appeal to a higher authority, they changed the policy to allow 90 days for reinvestment. The customer-service people knew that many of the hurricane victims would require extra time to get insurance checks. They based their judgment on one thing: The client comes first.

When employees know their firm's ethical standards, it makes doing business a lot easier at all levels of the company. If a new problem comes up, they don't have to think about a solution from scratch; they already have the framework. If that framework has been tested and tried, employees can make efficient and effective decisions. People may not always make the best choices, but if they make them in the context of values and ethics, the results are likely to be much the same.

No organization can ever run perfectly. But if a company lives by strict ethical standards, its CEO can spend his time unleashing the intellectual and personality power of his people.

Harvey Golub is president and CEO of IDS Financial Services Inc. and vice chairman of American Express Co.

Denial

FAXPOLL FEEDBACK

'WHOSE ETHICS? WE DON'T ALL GO TO THE SAME "CHURCH," SO WHY FOLLOW THE SAME STANDARDS?'

Not My Problem

Most of you think companies should make ethics as important a priority as making a buck. But if your jobs were on the line, 49% said, it was occasionally all right to bend the rules a little.

'Cleaning up isn't the duty of public companies—we work for shareholders.'

PHOTOGRAPH BY WILLIAM DUKE

LAYOFFS: It was Bloody Monday at McDonnell Douglas Corp. Nearly 17,000 workers were told to walk out the door and never come back. What was the carnage like inside the big defense contractor—and what can you learn from the largest one-day layoff in corporate American history?

Nobody likes to talk about corporate life and death. But Michael Becker, McDonnell's vice president of human resources, agreed to discuss the painful events of July 16 with BUSINESS MONTH *contributor Patrick Houston.*

The fact that we were going to have to make layoffs first became apparent to me in the second or third week of June, mainly through conversations with my boss, who is a member of the company's executive council.

The magnitude of the reduction was a surprise to me. Our results had been indicating that we were going to have to consider some drastic action. But I don't think any of us thought we'd have to reduce by 14,000 to 17,000 people.

Let me clarify something. You can talk about the reduction in terms of people. But this was really a reduction of jobs. We looked at every job in the company and classified them into two groups: what was "essential" to keep the business going and what was "important." Then we asked, What are the important but nonessential tasks we can eliminate? So we really reduced a number of jobs. As part of that, people were also reduced.

IF YOU THINK PERSONNEL CUTS ARE PAINLESS FOR THE EXECUTIONER, TRY LOPPING OFF SOME OF YOUR OWN LIMBS.

This reduction has essentially fallen on the nonunion, white-collar work force. Union workers were reduced, but they were nonproduction labor. (We still have airplanes to make.) Among our white-collar employees, people at almost every level and in every position are being affected—financial people, engineers, secretaries, technologists, scientists—everybody. This has affected people who were almost immune to cutbacks in the past.

For the most part, the actual decisions about who would stay and who would go were made at the middle-management level, with top-management oversight. Generally, we thought, Okay, what are the things we can eliminate and what are the things we must do? After we decided that, we asked, Who are the people best suited to do the work that's left?

In assessing people, we considered all kinds of criteria: their ability, demonstrated skills, record of performance and discipline, experience, interpersonal skills, job knowledge. To some degree, we thought about length of service. We didn't use a seniority system, but how long people have been here is obviously a consideration. There was no hard-and-fast formula applied; we relied on best-educated management decisions.

McDonnell Douglas is made up of a number of operating companies. The role of my staff was to coordinate human-resources activities in each of our operating units. In a corporation with 130,000 people, you need a degree of consistency.

When it became apparent that this reduction was going to be reality, the heads of human resources in each of the component companies—as well as representatives from external relations, communications, benefits, and the legal department—would sit in on conference calls. Day by day we would talk for 15 minutes, sometimes for hours, about the ways we could help the company and the people who had to leave. This networking allowed us to share best practices and replicate them without reinventing the wheel.

In some areas, we would work policy decisions, such as the mechanics of when people are notified. Where we had major impacts on large communities, we gave longer notice than we did where we had only a few people. But generally speaking, people are getting 60 days' notice, without additional severance pay.

As soon as someone received notice about being let go, he was given an appointment at a career-counseling and outplacement center. These people were briefed by the company about all the services that would be available to them. We talked to them to make sure they understood the benefits they were entitled to as part of their separation.

We had representatives from state, local, and county governments acquaint people with some of the services these agencies provide. We had the Consumer Credit Corp. come in and talk about how they might consider handling their finances. We are working with the Internal Revenue Service to give people briefings about their options in dealing with lump-sum savings-plan payments.

We've made computers available to people who want to work on their own résumés or sharpen their computer skills. We're providing classes for people about how to behave in interviews. We're holding several job fairs, with more than 115 companies signed up in St. Louis alone. We've talked to other companies in

our industry, such as Boeing, inviting them to come and talk to people who are available. We have an advertising campaign aimed at local communities, discussing the availability of our people and the quality of their skills.

Among those who remain, trust has been bruised. Still, in talking to employees—even people affected by the layoffs—we've found the vast majority really think something like this is necessary for the greater good of the company.

How do I feel about being involved in a reduction of this magnitude? That is the kind of question I'm never comfortable with. I think of the news media when they're interviewing the husband and wife standing in front of their burning home and asking, How do you feel about your house burning to the ground?

You have feelings about the business itself. You know, I've spent 18 years of my life here at McDonnell Douglas. This is a business I believe in, that I'm part of. It's very much a family kind of thing. So when you go through it, it's very tough on you mentally and physically. There's an awful lot of trauma involved in seeing people you know who are going through separation. I've personally had to eliminate 30 percent of my staff, which amounted to 10 people. It all comes very close to home.

During these times, there's more work that falls on everyone. You wind up doing more with less. You work longer hours and probably during the weekend.

There's also that feeling of guilt. Anybody who's left with a job—whether it's me or others—gets what I call a "survivor complex." At first you feel, Wow, it's over and I'm safe. Then you think, Boy, there but for the grace of whatever goes me. And then you realize those people without jobs have mortgages to pay and children to educate.

Living in St. Louis, you can't read a paper, you can't turn on the news, you can't even go to a ball game with your kids without talking to someone from McDonnell Douglas. We're the largest employer in the community, the largest employer in the state.

Somebody who has been affected by the reduction is probably skeptical that I can really empathize. But I've been involved with it enough to know this is the kind of thing you don't like to do. As John McDonnell, our chairman, said when he was up in front of the press after announcing the reduction, "This is not the fun part of business."

FAXPOLL FEEDBACK

LAYOFFS: What if Frank Lorenzo didn't really resign from Continental but was given the ax by the board?

By Joe Queenan

PHOTOGRAPH BY ERNST HAAS/MAGNUM

AS THE WOR'D'S PREMIER HUMAN-RESOURCES OUTplacement specialist, I am often asked, "What was your toughest assignment?" Furloughing those 4,300 teachers from Drive 'n' Thrive, that chain of mobile nursery schools that closed in 1986? Telling the entire population of Youngstown, Ohio, that the glory days were over and weren't ever coming back? Helping Walter Mondale find part-time work after his failed 1984 presidential bid?

No, I tell them, no. As difficult as all those assignments were, my toughest job ever was persuading Frank Lorenzo, chairman of Continental Airlines Holdings Inc. and former head of its subsidiary, Eastern Airlines, that it was time to pack up his belongings and clear out his office.

Now, I know what you've read in the press lately. Some nonsense about Lorenzo's resigning of his own free will and walking off with $30.5 million, not to mention a severance package equal to about one quarter's worth of losses at Continental. Don't you believe it. The real story is that, once Eastern was taken away from him, he was—how shall I say?—airbrushed out of Continental.

I got the call on a Tuesday, a sultry afternoon in early August. My boss at Rapid Redeployment had received an urgent message earlier in the day from Continental's board. After the federal bankruptcy judge had snatched Eastern away from Lorenzo, the board was knocking itself out, wondering whether the guy still had any juice left in him. In fact, they wanted Lorenzo out. Fast. The problem: After they'd notified him that he was through, the takeover specialist simply refused to go. Hunkering down in his penthouse suite with a suitcase full of sandwiches and a pile of 10-Ks, Lorenzo made it clear to everybody that while Eastern was gone, Continental was still his airline, and he was damned if he was going to leave.

That's where I came in. A veteran diplomat with a degree in rhetoric from the University of Milan, I'd had plenty of experience with this sort of thing. Mostly, you needed to talk these guys down, gradually make them see they were fighting a lost cause. Pulling it off wasn't always easy, but that's what they pay me for.

I knew Lorenzo was a marathoner, so I decided to go that route. I phoned him, explained who I was, asked if he'd agree to come downstairs for a 10-K run. He stalled at first, but when I agreed to put some equity into his next acquisition—my company lets me write off up to $25,000 of this sort of stuff—he gave in. Decked out in our Nike finery, we took off down the track through the woods in suburban Washington.

"Let me be frank, Frank," I began. "Continental needs you out of there; they need you out of there pronto. But it doesn't have to be purely one-way. There can be some give-and-take. The office, for example…"

"I need the office to make phone calls," Lorenzo explained. "That pension fund—$1 billion and counting—has put me so far underwater that MCI has shut off my phones down in Texas. I make a lot of long-distance calls—France, Iowa—so I need access to a phone at all hours of the day or night."

"Hey, no big deal," I replied as we jogged apace. "We can set you up with your own office: phones, copying machines, secretaries—"

"Fax?"

"Fax, too. Whatever you need, big fella. Hey, look, Continental's not trying to be unreasonable. It's just, well, hell, Frank, there have been hard feelings."

Lorenzo was in amazing shape, chugging along with no sign that the whole Eastern fiasco had taken its toll.

"I know what you're saying about hard feelings, Jack," Lorenzo said. "That's just the problem. I may be job hunting soon, and even though my résumé looks good, I don't really have anyone at Continental I can use as a reference. And at Eastern, they'd be happy to sign my death warrant. I'm dreading that moment when the personnel director points to the line on the application that reads, 'Reason for Leaving Last Job.' "

"Say the company went bankrupt," I fired back. "Tell the truth: Eastern did go bankrupt." I loped along at a steady pace for another 50 yards. "Just don't say it went bankrupt because of you."

He thought about it, cruising along, head down. "And the job references?"

"We can work something out, Frank. The board wants you out of there, so if you'll agree to pack up and go quietly, I'm sure we can find some delicate way to phrase it. 'Steady, dedicated worker. Self-starting type. Highly motivated. Goal-oriented.' We'll think of something."

He was obviously pleased to hear that. Yet, as we approached the end of our run, his brow seemed to furrow.

"When I'm out on these interviews," he began, "I'm going to be burning a lot of cash on transportation. Do you think there's any way we could work out some kind of free pass? Or a deep discount for multiple trips?"

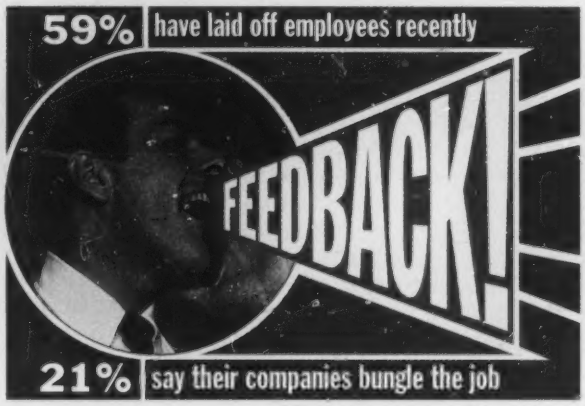
"Maybe a frequent-flier deal, Frank. Something."

"I'd like to fly down to Texas tonight, in fact. Do you think there's any chance that you could, you know, book my seat?"

I frowned. "I'd love to, Frank. But remember: You sold the Eastern reservations system to Texas Air for a song. Maybe we could book your flight on another carrier."

"Oh, yeah," he mumbled. We came to a halt.

"They want you out of there, Frank," I said. "They mean it, too. It's hurting the company." I paused. "Can I have the movers stop by later today?"



Lorenzo thought about it for a minute. It wasn't an easy time for him. It was, in fact, one of the pivotal moments in his life. The empire that he'd built was crumbling around him, and here he was, facing the ultimate humiliation: getting shown the door by people who had once served at his pleasure. But I was sure he knew when to hold them and when to fold them.

"Can I keep that bust of Churchill?"

"No problem."

"And the J.F.K. autograph?"

"You got it."

He hesitated. "How about the Eastern computerized reservation system?"

I looked at him carefully. I saw the fire, the resolve, the determination. I said, "Hey, Frank, let me buy you a Diet Pepsi."

While he was drinking it, I nipped out to my cellular phone and told Continental to call the cops.

Joe Queenan is a regular contributor to Barron's *and* The Wall Street Journal.

LOYALTY: A spasm of layoffs and downsizing in the 1980s obliterated what was left of corporate loyalty. Now everyone is a free agent. By James Traub

THE MYTH OF A GOLDEN AGE serves a consolatory function amid the whirlwind of change that is real life. Now we are fallen, but once we lived in perfect harmony with our environment. The paradise-and-expulsion story in the realm of corporate management goes as follows: Once upon a time, a job was forever, and employees and top management were bound to one another by a sense of shared obligation. Then big companies unilaterally shattered the compact in a spasm of layoffs, in downsizing and restructuring. Employees responded in kind by looking after their own interests, thus revoking their pledge of loyalty. Now the old order lies in ruins. "For the middle manager," one death-of-corporate-loyalty author puts it, "it is the age . . . of bitter disaffection."

Whatever solace it offers, the Golden Age myth makes the past seem better than it was and the present worse than it is.

Certainly things are not what they were. Look at the titles in your bookstores: *The Economics of Chaos, Thriving on Chaos*. Big business, once thought of as a metaphor for conservatism and plodding predictability, has embarked on a Darwinian struggle for dominance—for survival. Successful firms don't make the promises they used to. Only a generation ago, General Electric offered its employees a sense of security and belonging that would rival a medieval guild's—until "Neutron Jack" Welch took over as chairman from gentlemanly Reg Jones. Within a decade, Welch had sold off or simply closed dozens of divisions, reducing employment by more than 100,000. Now he owns a television network, but he doesn't make televisions anymore. Noth-

ing is assured; everything is provisional. *Speed* and *agility* are the chairman's watchwords; *stability* is a synonym for *paralysis.*

A job isn't forever anymore, and employees know it. A 1987 survey found that only 17 percent of middle managers expected to be with their current employer 10 years hence; even 5 years seemed unlikely to the majority of respondents. In 1979 the UCLA Graduate School of Business and Korn/Ferry International, the executive-recruiting firm, asked senior managers at the *Fortune* 1,000 companies whether they had worked more than 25 years at their current firm. Thirty-one percent said yes. Ten years later, the number was down to 22 percent.

But the figures about top executives don't necessarily vindicate the myth of the Fall. This class, after all, largely commands its own fate. Its members aren't being pushed; they're jumping, exploiting their own desirability. In fact, there has always been mobility in the upper ranks, though no doubt the jumping has become more feverish in recent years. A study of the Harvard Business School class of 1936 found that only 22 percent of the graduates were still working with the same company less than 20 years later; a larger fraction had worked for four firms or more. In *The Organization Man,* written in 1956, sociologist William H. Whyte Jr. quotes a corporate recruiter as saying, "I have to battle with my clients to keep them from changing jobs too much."

The irony, or perhaps the word is hypocrisy, inherent in this phenomenon is that nobody preaches corporate loyalty more and practices it less than top management. What has happened in recent years is that the opportunity to engage in this form of hypocrisy has been tremendously democratized. Last summer *The Wall Street Journal* shed a crocodile tear or two over the tale of Clifford Gookin, a young investment banker and Harvard Business School graduate who rode the wave of instant success and then saw it crash on him. Gookin had earned a fortune at First Boston before jumping to Bear Stearns to earn an even bigger fortune. Nobody was upset: "Loyalty wasn't particularly expected." A year later he jumped back to First Boston. And almost three years later, in the midst of a downturn, he was let go. Young Gookin was shocked, disoriented, angry. He had felt, after his return, "totally dedicated" to his original employer. Apparently he was too bewildered to recognize that the same rules—or lack of rules—that had allowed him so casually to jump had allowed him, just as casually, to be pushed. Corporate loyalty was a virtue only when it was useful.

Few industries, of course, have dispensed with the rules so drastically as investment banking. But the reason Gookin was able to hop back and forth was that he had a skill—arranging financing—that was in demand. He had attained the mobility once reserved for top management.

The world is now full of Gookins. "Knowledge workers," writes Peter Drucker in his latest book, *The New Realities,* "know that their knowledge, even if not very advanced, gives them the freedom to move. In the tremendous reshuffling of American business during the 1980s, many displaced managers and professionals—including older people—found that they *could* get new jobs and, in many cases, better jobs than the ones they had lost. Their knowledge made them free. It is a lesson knowledge people in America—especially the young ones—will never forget."

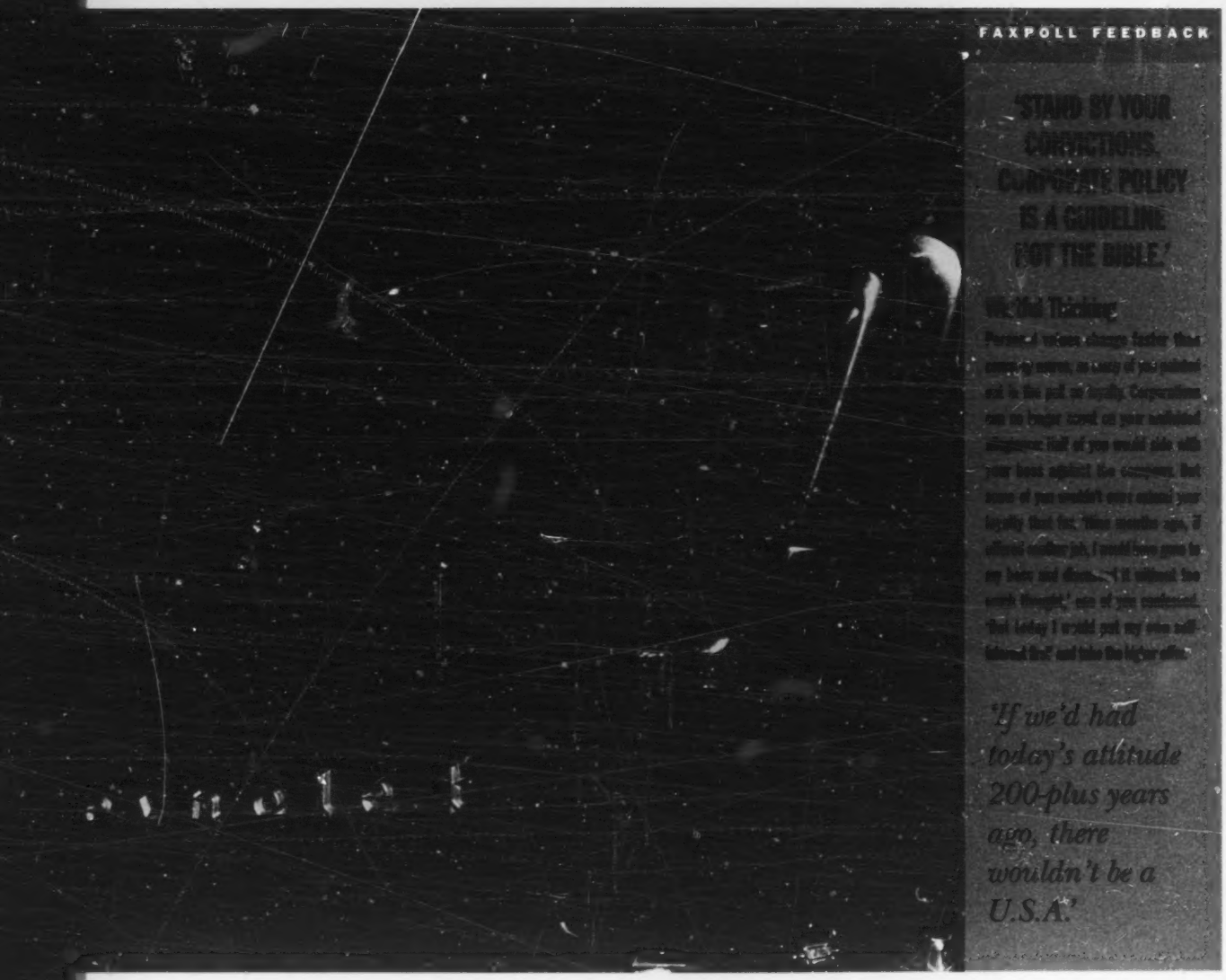
We are, however, uneasy with our newfound freedom, which is also a form of insecurity, and so we romanticize the past. The modern corporation, we should recall, was founded on the military "command and control" model, and its claims to loyalty, as with the military, involved total identification. "The good of each of us as individuals," as Thomas Watson Sr. put it, "is the greater good of the company."

CORPORATE LOYALTY IS A VIRTUE ONLY WHEN IT IS USEFUL, AND IT IS ONLY USEFUL UNTIL YOU GET A BETTER OFFER.

Watson's IBM really was a benevolent employer, for workers as well as managers. But the firms that have arisen in the last 15 to 20 years to challenge IBM and the other corporate giants—the firms celebrated by theorists of "chaos" such as Tom Peters—are based on an entirely different model, one emphasizing shared decision making and loose hierarchies. Firms like Apple adapted their cultures to the independence and autonomy demanded by a new generation of worker.

It is still instructive more than 30 years later to consult the *Organization Man,* whose central theme is precisely this tension between good-for-me and good-for-the-institution. What Whyte found all around him in 1956 was a willingness to sacrifice autonomy, not to the tyranny but to the benevolence of the organization—a "soft-minded denial that there is a conflict between the individual and society." Whyte noticed that it was the new generation of college-educated workers, the men who today constitute the upper strata of corporate management, who had the fewest qualms about taking the pledge of allegiance to their companies. It was in the next generation that the simple pieties of corporate loyalty would be fractured.

Of course, the equation isn't simple. Practically everyone is torn, like Clifford


FAXPOLL FEEDBACK
'STAND BY YOUR CONVICTIONS. CORPORATE POLICY IS A GUIDELINE, NOT THE BIBLE.'
'If we'd had today's attitude 200-plus years ago, there wouldn't be a U.S.A.'

Gookin, between the desire for security and solidarity on the one hand and mobility and autonomy on the other. People who choose to work in large organizations, especially, tend to place an extraordinarily high value on security. Look at the company Master Watson molded. Quinn Mills, who wrote *The IBM Lesson*, found that IBM's no-layoff policy was the most important factor in determining employee loyalty, even among the most highly skilled and marketable workers. The average annual turnover rate among Silicon Valley engineers is 20 percent, says Mills; among IBM engineers, it is 2.5 percent.

So firms that reward loyalty still get it; the organization man hasn't changed so very much since Whyte's day (though job shifting, for Whyte, was scarcely the sine qua non of organizational independence). Perhaps the point, then, is that most employees need a "reshuffling," in Drucker's phrase, to learn to view their freedom as something more than a nice word for insecurity. And that is just what they have been getting. Even IBM has trimmed thousands through a generous retirement package. In fact, the trend is toward more reshuffling, more chaos. It seems that we will have to rediscover the old-fashioned virtues of individualism and self-reliance.

"The old contract has been decimated from both directions," says David Ulrich, a faculty member at the University of Michigan. "And now the question is: How do you form new attachments without the promise of loyalty?" The quick answer is: the same way you have always formed them with top managers—buy them. Skilled workers as well as managers are now bargaining for signing bonuses, severance agreements, and so on, just as professional athletes do.

But a successful corporation needs more continuity than a sports franchise. There must be a long-term answer. Clearly, a new corporate culture must arise to accommodate new expectations. The old military model is already giving way in many firms to a more egalitarian one. The corporation no longer wants to insist on old-fashioned paternalism, nor is the employee so willing to accept it. In the new world, authority must be more diffuse, more flexible. This is only a way of saying that the democratic principles that rule our civic lives must be allowed to suffuse the corporation. For all our insecurities, would we wish it otherwise? ■

James Traub's book, Too Good to Be True: The Outlandish Story of Wedtech, *was published by Doubleday.*

PHOTOGRAPH BY MICHAEL NICHOLS/MAGNUM